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U.S. POLICIES AND PROGRAMS IN SOUTHEAST ASIA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

U.S. POLICIES AND PROGRAMS IN SOUTHEAST ASIA: TO EXAMINE INTERESTS IN SOUTHEAST ASIA—POLITICAL, ECONOMIC, AND MILITARY—THE THREATS TO THESE INTERESTS AND THE POLICIES AND PROGRAMS DESIGNED TO FURTHER THESE INTERESTS

JUNE 8, 10, AND 18, AND JULY 15, 1982

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U.S. POLICIES AND PROGRAMS IN SOUTHEAST ASIA

TUESDAY, JUNE 8, 1982

UNITED STATES SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS,
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:07 a.m., in room 4221, Dirksen Senate Office Building, Hon. S. I. Hayakawa (chairman of the subcommittee) presiding.

Present: Senator Hayakawa.

Also present: Hon. Prok Amaranand, Ambassador from Thailand to the United States.

Senator HAYAKAWA. The Subcommittee on East Asian and Pacific Affairs will please come to order.

This morning we begin a series of hearings on U.S. policies and programs in Southeast Asia. The series will take as its departure point the hearings on Southeast Asia which we held about this time last year. So, in effect, it will be an update on our relations with the countries of this very important area of the world.

We have several purposes in mind in embarking on these hearings: first, to examine American interests in Southeast Asia, political, economic, and military, and the threats to those interests and the policies and programs designed to further those interests; second, to determine the state of U.S. relations with the countries of Southeast Asia; and finally, to highlight the prospects and problems for American trade and investment in the area.

We have a distinguished group of witnesses to assist us in our examination of U.S. involvement in Southeast Asia. This morning it is a pleasure to welcome Hon. John H. Holdridge, Assistant Secretary of State for East Asian and Pacific Affairs, who will provide a general overview of the area.

We also have the pleasure of having Mr. Richard Armitage, Deputy Assistant Secretary of Defense for International Security Affairs, who will describe U.S. military interests in Southeast Asia, the threats thereto, and the policies and programs designed to further U.S. interests.

Later, we shall have with us Hon. Craig A. Nalen. Mr. Nalen is president of the Overseas Private Investment Corporation [OPIC] and will discuss the role of this corporation in furthering U.S. commercial interests in Southeast Asia, the prospects for expanding trade and investment and the impediments thereto.

So welcome back to the committee, Mr. Holdridge and Mr. Armitage. We will turn to your testimony in a moment and will hear first

from Mr. Holdridge and then from Mr. Armitage. Later, we will hear from Mr. Nalen.

In subsequent hearings, on June 10, June 18, and July 15, we will hear from Anthony C. Albrecht, Deputy Assistant Secretary of State for East Asian and Pacific Affairs on U.S. economic interests in the area; Hon. Elise R. W. duPont, Assistant Administrator, Bureau for Private Enterprise, AID, on the role played by the private sector in the economic development of the area; Hon. John A. Bohn, Jr., U.S. Executive Director, Asia Development Bank, on the role of the Bank in furthering our interests in Southeast Asia, as well as the Bank's problems and prospects; and James P. Rooney, Chairman, Asia Pacific Council of the American Chambers of Commerce, Bangkok, Thailand, with a current assessment of economic and commercial prospects in Southeast Asia.

The series of hearings will conclude on July 15 when Ambassador Holdridge reports to the committee on the ASEAN and ANZUS ministerial meetings which will have just terminated and which he will have attended.

And now I would like to make a few prefatory remarks before we turn to the first witness.

During my visit in Southeast Asia last summer, I gained the impression that the ASEAN nations are all prosperous, vigorous, and optimistic. There is great hope for the future in Southeast Asia. Yet, all have difficult challenges ahead. They must narrow the gap between the rich and the poor. They must raise the overall standard of living of their people. All of the ASEAN nations in seeking this goal will need to some degree technology and managerial skills, which the United States has in abundance.

In addition, U.S. trade and investment will play a major role. As I reported to my colleagues upon my return, I believe we hold many important values and ideals in common with the ASEAN nations, and this will make our collective efforts easier.

For example, all five of the ASEAN nations are devoted to the principle of free enterprise and free trade. They are dedicated to the concept of democracy, though there are authoritarian aspects to several of the governments. They are united in the belief that communism has no place among the ASEAN partners. All, in different ways, perceive a threat to their independence from the Soviet Union and China.

The five ASEAN governments, whose officials I visited, were enthusiastic in their support of a reinvigorated, firm, and consistent America. There is an important role for the United States to play in promoting the peace and prosperity of Southeast Asia.

In the intervening months since my visit in the area, several trends appear to have developed which are disturbing. First, the deepening impact of recession in the industrialized countries on the economies of the ASEAN countries, particularly the Philippines; second, the growth of differences between ASEAN and China over Kampuchea; and third, a perceptible increase in the ASEAN governments' criticism of certain U.S. policies—for example, preferential tariffs for Caribbean countries, sugar quotas, and our failure to sign the Law of the Sea Treaty.

We therefore look forward to your assessment of these and other problems which confront us as we begin this very important series of hearings.

The distinguished Ambassador from Thailand, Ambassador Prok, has joined us.

Mr. Ambassador, we are very glad to have you with us today, sir. We are delighted to have you.

Ambassador Holdridge and Mr. Armitage, you may proceed. It is my understanding that you will speak first, Mr. Holdridge, and will be followed by Mr. Armitage. We will then ask questions of the two of you, before we turn to Mr. Nalen.

Ambassador Holdridge.

STATEMENT OF HON. JOHN H. HOLDRIDGE, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS

Ambassador HOLDRIDGE. Thank you very much, Mr. Chairman. As always, it is a pleasure to be before this committee and to discuss the concerns which occupy your attention.

I think it is particularly appropriate that I appear at this time because, as you mentioned, I will be accompanying the Deputy Secretary to the ASEAN extended foreign ministers meeting and then to the ANZUS Council meeting and will be in the area for quite some time. I will not be returning until around the second of July.

I intend to leave the party in Canberra following the ANZUS Council meeting and return through a number of the ASEAN capitals. In fact, I think it is going to be possible for me to visit all five of them plus Burma on my way to and from the region. So I think I will be very well equipped—I hope I will be—when I subsequently talk at the ASEAN foreign ministers meeting in Singapore this year.

Let me say that certainly the situation in Southeast Asia continues to be remarkably stable. When one looks at the world as a whole, unexpectedly, it appears that Southeast Asia is something like an island of calm in the midst of a very turbulent sea. This is particularly true, of course, for the ASEAN countries who have coped remarkably well with the difficulties—economic, political, and security—which have affected them over the last several years.

Certainly, on the economic side it has been possible for the ASEAN countries working together to maintain a rather remarkable rate of growth, all things considered. Of course, it varies from country to country.

Nevertheless, the signs are very positive, and they have been able to keep up with the buffetings of the international market situation quite well, to the point where certainly Singapore, in particular, has been able to maintain a rate of growth of about 10 percent per annum, which, under the circumstances in this day and age, is rather remarkable.

The countries have also stayed together very well indeed in the political sense. They work together very effectively, increasingly so indeed over the years, and with particular reference to the situation in Kampuchea, occupied still by the Vietnamese with 180,000 troops,

which are posing a security threat to the adjacent countries, particularly Thailand.

Thanks to the ASEAN countries working together, it was possible last year in New York City to come up with a resolution supported by a very large number of the world's countries, including nonalined countries, calling for the withdrawal of Vietnamese troops from Kampuchea, for free elections, and the creation of a neutral state, a truly neutral state of that country which would be acceptable to all parties concerned.

So ASEAN has really done very well indeed, but this does not disguise the fact that there are problems. I think that the ASEAN foreign ministers meeting and the extended meeting that will take place in Singapore are going to have to look more to the future than to the past. It is not enough to rest on past achievement, but they must grapple with the problems of the present.

One of these, of course, will be the international economic situation, the trade situation. And as you mentioned, Mr. Chairman, there have been some problems about commodities. Some of the principal exports of the ASEAN countries are falling into difficulties. I could refer to sugar; I could refer to tin. I could also refer to rubber. And there has been a tendency on the part of some of the ASEAN countries to pull away from the world free market situation and to look toward restrictive arrangements, which I do not think would be very helpful to them or very helpful to the world economy.

Of course, there is the concern about protectionism on the part of the ASEAN countries. As you mentioned, all of them rest on exports in order to keep themselves going. Their trade is essentially with the West, and if a protectionist trend occurs within the world economy, especially the Western economy, the ASEAN countries are going to feel that very promptly.

So what we are going to be doing in the ASEAN extended foreign ministers meeting is to reassure them that we ourselves do not intend to withdraw from the world free trade system; on the contrary, we want to strengthen that system. And we also hope that the ASEAN countries will remain within it as well. I just mentioned the question of commodities. And it certainly would not be beneficial if there are restrictive arrangements affecting some of the export commodities of the ASEAN countries.

I think the Versailles meeting which has just taken place is pointing the way to a determination on the part of the big contributors to the world economy to point in the direction of free trade to sustain this system which has been so beneficial over the years. And we will be presenting our views on that to the ASEAN countries as well. And certainly, we want to make sure that everyone who can stays within an effective world free market situation.

Now to turn to the Kampuchean situation. That is still going to be a very complex issue, and I think it is going to comprise a lot of attention of the ASEAN foreign ministers in meeting with Secretary Stoessel and the others. Vietnamese intransigence in Kampuchea, its continued resort to force, including the use of lethal chemical agents against the Indochinese population, and the growing Soviet military presence in Indochina are causes for concern.

In Singapore we will, of course, reconfirm our determined support for ASEAN's lead on Kampuchea. This has been a policy of this administration from the very beginning. And I think that it is understood and appreciated. But we will also stress our reliability as a treaty ally to the countries with whom we have relationships—that is, Thailand and the Philippines—but in addition, we will stress our reliability as a friend and as a backstop to all of the countries of the region with whom we have military programs and to whom we provide security assistance. And I would like to say that security assistance does not only exist in the military sense. We are also providing economic assistance, and we believe that is important, too, to maintain the security of the region.

Another area which is going to be of concern to us and certainly to the ASEAN countries is the question of refugees. We will be dealing with that, I think, to some extent, perhaps to an appreciable extent, in the extended ASEAN foreign ministers meeting.

On our side what we are looking for is obtaining complete accounting for U.S. servicemen missing in action in Vietnam and Laos. And we will press Vietnam to continue to provide access to information on POW's and MIA's.

Let me recapitulate, Mr. Chairman, in saying again that Southeast Asia, ASEAN in particular, has remained remarkably stable, remarkably cohesive, remarkably progressive. I think that this is attributable to the wise leadership which we can discern in these countries.

The leaders of all of them, I believe, are remarkably uninfluenced by ideology; they approach the problems which beset them—which are real problems—in a very realistic and pragmatic way. And hence, they are a success. They have been able to respond to changes in the world scene very quickly and very effectively. And there is very little credit we in the United States can claim for this situation. We happen to be very fortunate that the leadership is so perceptive and so able in that part of the world.

What we can do, however, is to continue what we have done already, and that is providing the kind of political support, the kind of economic support, the kind of security assistance which has allowed these countries to move in the direction which is favorable to them and favorable to us. And I am sure that we can count on the assistance of the Congress in that regard.

Thank you very much, Mr. Chairman.

[Ambassador Holdridge's prepared statement follows:]

PREPARED STATEMENT OF HON. JOHN H. HOLDRIDGE

Mr. Chairman, I greatly welcome your invitation to speak on U.S. policy toward Southeast Asia. This hearing is timely as Deputy Secretary Stoessel and I will next week be meeting with the ASEAN Foreign Ministers in Singapore, where many of the issues I will mention today will undoubtedly be addressed.

FAVORABLE TRENDS

Few would have thought twenty years or even ten years ago that Southeast Asia would be described this year in the financial section of the New York Times as "the most upbeat area of the world." Although I have not measured Southeast Asia's claims to this distinction against those of other parts of the globe, several important developments in my view, justify an overall positive assessment both of developments in the region and of our relationships there.

Particularly encouraging is the successful manner in which many Southeast Asian nations have carved out for themselves increasingly important roles in the world's free market. The economic growth of most of our Southeast Asian friends to which I draw attention in my appearance before this Subcommittee last summer, has continued despite a less than favorable international environment, particularly as regards demand for their principal export commodities. The ASEAN states in particular have both drawn strength from—and lent strength to—the world market economy.

Another positive feature is the effectiveness with which ASEAN countries continue to rally international support for resolution of the Kampuchean problem. They have met continued Vietnamese intransigence with resolution and resourcefulness. ASEAN's success has been reflected in another decisive vote on Kampuchea in the U.N. General Assembly last fall, equally broad support for its approach to a political solution to the Kampuchea problem spelled out in the Declaration of last July's International Conference on Kampuchea, and broad cooperation in applying strong economic pressure on Vietnam to help persuade it to negotiate a comprehensive political solution in Kampuchea as outlined by ASEAN in the International Conference.

We can also point to favorable trends in popular political participation paralleling the emphasis that a market economy approach places on freeing individual initiative. Three of the five ASEAN states held national elections this year and the other two held important bi-elections, adding to the foundation of democratic development. While progress in this area may be regarded by some as uneven, the trend is encouraging when viewed over the long term. Certainly prospects are bright when contrasted with conditions in Indochina, which possesses the region's principal alternative governing system.

CURRENT CHALLENGES

When we meet with ASEAN Foreign Ministers in Singapore later this month, the focus will be less on past accomplishments, of course, than on challenges that lie before us—and there are many.

The ASEAN governments are particularly concerned about the current state of the world economy, which has placed strains on them and on their relationship with us. As we are all aware, economic growth such as many ASEAN countries have experienced often increases popular expectations faster than actual incomes, and the depressed market for certain export commodities has had a widespread effect within their domestic economies. Some governments are under pressure to withdraw from competition through restrictive and thus ultimately self-defeating trade arrangements. There is a widespread fear that the United States itself might turn to protectionism. We will stress our commitment to get our own economy into order, to resolve trade and investment problems in a manner which will deepen attachments to the market economy, and to contribute to balanced growth through investment, trade and development assistance programs. Improving the global economic climate will also be important in this respect and I think that we will soon be able to point to some positive movement arising from the Versailles Summit. We will ask in return for ASEAN's continued cooperation in assuring that the world market from which we all have drawn our strength remains competitive and thus efficient.

Continued Vietnamese intransigence on Kampuchea and the threat Vietnamese forces pose to our good friend, Thailand, are also matters of immediate and great concern to ASEAN and the U.S. alike. The repressive measures used by the Indochinese regimes to control their own people including the use of lethal chemical agents against civilian populations is an additional disturbing element. Pressing for a political solution to the Kampuchea problem while strengthening the military forces of Thailand and its friends in the area are parallel, complementary measures to meet this challenge. We will reassure the ASEAN states that they can rely on our firm support for their efforts to promote a Kampuchean settlement based on the declaration of the International Conference on Kampuchea. We believe ASEAN governments should continue to take the lead on this issue because of their demonstrated success in marshalling international support and because of their sound approach to the problems involved. At the same time, we will stress the reliability of the United States as a treaty ally to Thailand, as a counterweight to the growing Soviet military presence in Indochina, and as a reliable supplier of credit, equipment and training for the modest military modernization programs of friendly Southeast Asian countries.

While Indochinese refugee flows have fortunately diminished markedly in past months, they remain a problem for the first asylum countries. It is important that the residual refugee population in Thailand, Malaysia and Indonesia continue to decrease, and we will work with other resettlement countries toward this end.

The lack of a complete accounting for U.S. servicemen missing in action in Vietnam and Laos is a bilateral problem to which we assign highest priority. We will continue strenuous efforts to obtain the cooperation of the governments of Vietnam and Laos on this matter, as a humanitarian issue to be handled expeditiously and separately from other concerns.

CONCLUSIONS

Mr. Chairman, Southeast Asia has for many years been known as the home of some of the world's most intractable and dangerous problems. Many of them are still with us. Today, however, Southeast Asia is also the home of some of the world's more effective problem-solving governments—and this has made a difference.

I think we might sum up the sources of favorable developments in Southeast Asia by singling out three characteristics of our friends there. First, they have strived hard to compete in the world market economy. Their overall growth rates, which are far above the world average, testify to the efficiency and strength they have gained from such competition. Second, they have sought to cooperate in preserving the economic system which gives them this growth. ASEAN, which found common economic goals for countries whose economies are not complementary and which has now become a potent constructive force in world political councils, is proof of their success in this field. Finally, they have recognized and demonstrated that local initiative is the basic building block for economic development, social progress and security.

The United States has great interest in assuring that this competitive spirit, cooperative attitude and local initiative continue to thrive. Our objectives, therefore, remain much as I described them to you in last year's hearing. In cooperation with our ASEAN friends we will seek to curb the security threat posed by Vietnamese aggression and the Soviet military presence, and to alleviate the economic pressures caused by the current world slump and imbalances within our system. The progress and stability of our friends and allies in ASEAN are the heart of our policy, since they form the foundation for the favorable trends we have thus far witnessed in Southeast Asia.

In pursuing these goals, Mr. Chairman, I feel certain that we will have the continued cooperation of your subcommittee and other Members of Congress.

Senator HAYAKAWA. Thank you very, very much, Mr. Holdridge. We will proceed now to Mr. Armitage's testimony.

STATEMENT OF RICHARD L. ARMITAGE, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR EAST ASIA AND PACIFIC AFFAIRS

Mr. ARMITAGE. Thank you, Mr. Chairman. As usual, I am filled with enthusiasm and not a small bit of trepidation appearing before you. I would like to request that my written remarks be submitted for the record and, with your permission, I will give just a few preliminary remarks.

Senator HAYAKAWA. Without objection, it is so ordered.

Mr. ARMITAGE. Thank you. Prior to entering into those preliminary remarks, I would like to make a short statement concerning one aspect of your own career. As I am not sure how many more times I will have the pleasure of appearing before you in this committee, I would like to take the opportunity as a DOD representative and indeed as an administration representative to thank you for your strenuous and tedious efforts toward the resolution of the prisoner-of-war/missing-in-action issue.

You have kept this issue in the forefront of the minds of the American people and indeed of the minds of your colleagues. I think the League of Families, the Department of Defense, all of us, owe you a great deal of gratitude. You have demonstrated graphically that we do not forget and that we shall not forget these people.

Senator HAYAKAWA. Thank you, Mr. Armitage.

Mr. ARMITAGE. I have listened with a great deal of interest to Secretary Holdridge's remarks and I have to say that I share his enthusiasm for ASEAN as a region and his enthusiasm on the economic, cultural, political, and social growth of the region.

But as a Department of Defense witness, I have to concentrate on a not so happy area: that is, the threat. Unfortunately, when we turn to consideration of the security threat, I cannot say that the picture has been much relieved from when I was privileged to come before this distinguished committee last July. I pointed out then that after the events of 1975, events which went very much against our interests, the unfraternal Communists of Vietnam and Kampuchea fell into a bloody and thus far unrelenting struggle, a struggle which like an open fire still threatens the peace and security of the region.

I also reported that these events had once again opened the region to the rivalries of the great powers, rivalries which the countries of the region strongly wish to avoid. Today the Vietnamese divisions remain at their work attempting to pacify Kampuchea. The fighting between the Vietnamese and the Khmer resistance groups along the Thai-Kampuchean border, if anything, has been more intense this year than in past years.

The tragic byproduct of this upheaval is the flow of refugees out of Indochina continues. Above all, the fighting puts at risk the stability of the region, which has seen far more than its share of trouble and which is of abiding importance to our own national interests.

If I may, I would like to call your particular attention to two countries, Thailand and the Philippines, which stand as our principal security partners in upholding the interests of the free world in Southeast Asia. I will turn briefly to Thailand and then go on to the Philippines.

As regards Thailand, she has continued a military modernization. This modernization has been given day-to-day impetus by events along her eastern border. Last October we enjoyed the visit of Prime Minister Prem to Washington. At that time the President assured the Prime Minister that the United States would adhere to the security guarantees we gave Thailand in the 1954 Manila Pact.

We have requested increased FMS credits and increased IMET in recognition of Thailand's increased front-line status. We have engaged in joint military training exercises with the Thai forces and are assisting the Thais in a joint logistics planning project, a project which we trust will identify the weaknesses of the Thai logistics system.

Recently, in January, we delivered some air defense weapons to the Thai. And just on May 22, in answer to an urgent Thai request, we delivered 155-mm. howitzers and M48A5 tanks. It is our intention, I think you can see from the remarks just given, to do all that is possible to help this valuable ally obtain the means for her own self-defense.

Regarding the Philippines; last year in my testimony I referred to the Philippines as a vital, irreplacable ally. Indeed, the Philippines is the keystone of our defense arrangements in Southeast Asia. It is our feeling in the Department of Defense that over this year we have markedly advanced our political-military relations, primarily through a series of high-level visits, capped, if you will allow, by Secretary Weinberger's trip to Manila in March.

Of great interest to me as we planned for the Secretary's trip was the realization that it had been 12 years since a Secretary of Defense of the United States had visited the Philippines. The message that the Secretary carried, indeed the message that all our high-level visitors have carried, was that Philippine cooperation in our concert of defense arrangements is respected and appreciated.

Much is made of the special relationship that exists between the Philippines and the United States. If I may, I will, with a very brief anecdote, relate how this was brought home to me very graphically by a recent visitor to the United States.

Major General Ramas, who is the commanding general of the Philippine Army, was recently a visitor here as a guest of General Meyer, Chief of Staff of the U.S. Army. In an after-dinner toast General Ramas was remarking on the special relationship. He said that during the war, after the United States had left the Philippines and the Japanese occupied the Philippines, over 1 million Filipino men, women, and children lost their lives fighting the occupation troops. And then as the United States and MacArthur indeed returned, the Filipinos joined with us to fight and defeat the common foe.

General Ramas pointed to the difference between this action on the part of the Filipinos and the actions that took place in Indochina and all over Southeast Asia where other countries such as the Indonesians took advantage of the occupiers to throw off the yoke of colonialism.

Remember when the Filipinos fought side by side with us under the same flag to defeat the common foe, they were basically still a colony of the United States. But because they share the same values and the same adherence to the general principles that we do, they chose to fight under our flag.

And they did believe the words of the first civil governor of the Philippines, the first U.S. civil governor, William Taft, who in 1901 took as his motto, "The Philippines for the Filipinos." Of course, in 1946 they were granted full and complete independence.

But this very graphically pointed out to me the very special relationship that does indeed exist. It is not a one-way relationship. It is not just in our minds. It is in both the minds of the Americans and the Filipinos.

Sir, in closing I would like to make the following remark. As we seek to protect our interests in the region and those of our friends and allies against the growing potential threat, we believe that our policies and approach enjoy inherent advantages over those of the Soviet Union and its surrogates. The Soviets appear to believe that a country must be remodeled in the Soviet image if it is to be a reliable friend. Others must be intimidated by military power.

Our interests, however, are not threatened by true independence and diversity. Our policies support independence, strengthen the capabilities and confidence of our allies and friends to resist intimidation and do so without demanding conformity. Our force presence in the western Pacific offers reassurance that we can come to the aid of our friends against external threats which are too big for them to handle alone.

Our security assistance helps each country strengthen its own self-defense capabilities, reducing the probability that it would need to ask for help from outside military forces. At the same time, security assistance, combined exercises, and military-to-military contacts make the military forces of our friends in the region more able to operate with our own and thereby more capable of effective combined operations were they ever required.

In closing, I would like to mention something which I feel has not gotten sufficient public recognition. Recently, President Reagan made a very wonderful decision, to my mind, and extended Adm. Bob Long for another year until July 1983 as commander in chief of our Pacific forces.

I certainly feel, and know the Department of Defense will echo this, and I am sure Secretary Holdridge will echo these views, that in Bob Long we have not only a superior military strategist but indeed a politician and statesman. This is echoed throughout the region.

Thank you, Mr. Chairman.

[Mr. Armitage's prepared statement follows:]

PREPARED STATEMENT OF RICHARD L. ARMITAGE

Mr. Chairman, I, like Ambassador Holdridge, have been pleased at the many positive trends we see in Southeast Asia and at the growing strength of the friendly governments in the region. They stand in dramatic contrast to the economic and social tragedies spawned by the Communist regimes of Indochina.

Unfortunately, when we turn to consideration of the security threat, I cannot say that the picture has been much relieved from when I was privileged to come before this distinguished committee last year at this time. I pointed out then that after the events of 1975, events which went very much against our interests, the unfraternal Communists of Vietnam and Kampuchea fell into a bloody and, thus far, unrelenting struggle—a struggle, which like an open fire, threatens still the peace and security of the region. I also reported that these events had once again opened the region to the rivalries of the great powers, rivalries which the countries of the region strongly wish to avoid.

Today, the Vietnamese divisions remain at their work attempting to "pacify" Kampuchea. The fighting between the Vietnamese and the Khmer resistance groups along the Thai/Kampuchean border, if anything, has been more intense than in past years. The tragic by-product of this upheaval, the flow of refugees out of Indochina, continues. Above all, the fighting puts at risk the stability of this region, which has seen far more than its share of trouble, and which is of abiding importance to our own national interests.

If I may, I would like to call your particular attention to two countries, the Philippines and Thailand, which stand as our principal security partners in upholding the interests of the free world in Southeast Asia.

Thailand continues a gradual military modernization given day-to-day impetus by the events along her eastern border. When Thailand's Prime Minister, Prem Tinsulanonda, came to Washington last October in a very successful visit, President Reagan, noting Thailand's status on the front lines, reassured him of this country's firm adherence to the security guarantees we gave Thailand in the 1954 Manila Pact. We have backed these assurances with foreign military sales and the

provision of military training (IMET), both at expanded levels. By this assistance, we play a major role in upgrading Thai forces.

We do not expect that Thailand can become a military match for the Vietnamese, who, after all, have the fifth largest military force in the world. But we are certain that, if pressed, the Thai Armed Forces would give a good account of themselves in the event of invasion of their homeland. In slowing down a Vietnamese assault, they would buy the time for Thailand's friends to come to her assistance.

We conduct periodic training exercises with the Thai and with other friends in the region. Just two weeks ago, U.S. Navy and Marine units together with corresponding units in the Thai Armed Forces took part in a large combined military training exercise, Operation "Cobra Gold." Out in the Gulf of Siam and along the beaches of the southern Thai peninsula, this exercise combined what had previously been a number of individual exercises into a comprehensive array of naval and marine maneuvers. Also, over the last several months, we have worked to increase the Thai Armed Forces' inventory of especially needed military equipment. In January, we provided air defense weapons long requested by the Thai Government. In the last several weeks, we airlifted 155mm howitzers and expedited the shipment of M48 tanks. These items had been the subject of urgent Thai Government requests for speeded up delivery.

In our presentations to the Congress earlier this year for security assistance to Thailand in fiscal year 1983, we asked for foreign military sales allocations of $50 million in direct credit and $41 million in guaranteed loans. We have asked for another $25 million in fiscal year 1982 supplemental funds. These are, at least in the East Asia region, large amounts. It is our intention to do all that we can to meet the needs of this ally in acquiring the means of self-defense.

The military situation on the border, particularly in the dry season months just past (the late winter and early spring of this year) has brought about an acceleration of Vietnamese attacks on the several Kampuchean resistance groups standing between Vietnamese forces and the Thai border. These attacks have been pressed more stringently than in past years. The nature of the fighting in western Kampuchea, however, is such that fast moving, lightly equipped guerrilla groups have, in fact, many advantages over the more conventionally operating and numerically superior Vietnamese. The military situation shows every sign of continuing as it is; essentially a cyclical pattern of fighting adding up to a stalemate for some time to come. The Vietnamese have by no means wiped out the resistance; these groups seem as determined as ever not to acquiesce in the Vietnamese dominance of Kampuchea. Indeed, the seeds of Khmer nationalism have proved very resistant to eradication.

I cannot leave a discussion of Indochina without mentioning another important and continuing U.S. interest in that area. That is our concern for nearly 2,500 Americans missing as a result of the Vietnam war. In the nearly 9½ years since the Paris agreement was signed, we have seen little improvement in the cooperation of the Communist governments of Indochina. We know they can be more forthcoming on the PW/MIA issue and we are committed to seeking every possible assistance from them to obtain the fullest possible accounting for those who remain missing. Because it is a humanitarian matter, resolution of the accounting issue is not linked to progress or lack of progress on other contentious issues between the United States and the Indochina governments. The United States Defense Department looks forward to national PW/MIA recognition day on July 9 as an opportunity show again that we have not forgotten.

In my statements last year I referred to the Republic of the Philippines as a vital irreplaceable ally. I am more than ever convinced that the Philippines is the keystone in our structure of defense arrangements in Southeast Asia. The Philippines provides the platform on which our forces would stand and from which they would operate in the event of emergencies in East Asia, the Indian Ocean area or Southwest Asia. Without this platform our ability to back up our interests would be much lessened.

I'm happy to say that over the last year our relations in the political/military field with the Philippines have advanced markedly. We have had a series of high level visits, capped, if you will, by that of Secretary Weinberger to Manila in late March. With all our Defense Department visitors has gone the message that Philippine cooperation in our concert of defense arrangements is respected and appreciated.

Over the years, our relationship with the Philippines has come to be known as a "special relationship". This signifies that the United States does more than

count the Philippines among its friends in the region. The Republic of the Philippines was our first ally in Asia. The U.S.-Philippines Mutual Defense Treaty, signed in 1951, predates our bilateral defense pacts with Korea and Japan, as well as our multilateral pact with Australia and New Zealand and the Manila Pact which includes Thailand.

General Ramas, commanding general of the Philippine Army, pointed out to me during a recent visit that the terrible suffering endured by the Philippine people during the Second World War was totally unlike the experiences of other colonial peoples of Southeast Asia. The Filipinos fought against the Japanese invaders, while their country was still a dependency of the United States. Unlike the history of neighboring Indochina, Malaysia and Indonesia, there was on anti-colonial movement to throw the Americans out at the end of the war. The Filipinos had been promised their independence and they got it, on time, in 1946. General Ramas made the point that both our countries shared many of the same values and had roughly the same ideas about free societies. Therefore, we fought together under the same flag as brothers—indeed, a special relationship.

Situated at the geographic hinge between our Pacific area military resources and the petroleum-rich areas of Southwest Asia, the Philippines are strategically vital in any event. We recognized early that the Philippines was key to an American military presence in the western Pacific. Together with our military facilities in Northeast Asia, Subic Bay Naval Base and Clark Air Base provide the forward positions from which we can respond as required to threats throughout this large region.

I do not mean to say that our facilities in the Philippine bases are irreplaceable. Facilities which could provide much of what is already at Subic and Clark could, indeed, be constructed in Guam and other locations in the islands under our jurisdiction in the western Pacific. These facilities, however, would be farther from the hinge and would, in most cases, have to be built up from present rudimentary facilities or built up from scratch.

Particularly as the Soviet use of bases in Vietnam becomes more apparent and, unfortunately, more regular we believe the Philippine Government sees our use of facilities in the bases as contributing directly to the defense of their homeland. Similiarly, we have heard expressions of other friends in the Southeast Asia region that our use of facilities in the Philippine bases makes a contribution to the stability of the whole region.

We do not wish to see renewed and increased military rivalries in Southeast Asia. While American economic interests have proceeded to grow steadily in the region and our political relationships have continued strong, we have not sought to build up a military presence beyond what we felt necessary for the protection of our standing interests, including the defense of our two treaty allies in the region.

Since 1978, however, the Soviets have introduced their ships and planes to bases along the coast of Vietnam, concommitant with major growth in Soviet naval and naval air strength in the whole Pacific region. They have deployed SS–20 missiles to areas of the Soviet Far East. The region has come under an increasing potential threat which shows no signs of abating.

Moreover, as I pointed out in my testimony this time last year, the Soviet Union appears in many respects to have its own agenda in the Indochina countries. It is not just backing up the enterprises of its surrogate. Soviet aid, approximately two-thirds in basic food stuffs and one-third in military equipment, continues to flow to the Hanoi government—aid which translates directly into Hanoi's ability to continue the fighting in Kampuchea. But of perhaps greater importance, Soviet long range reconnaissance aircraft are permitted in return to operate out of Vietnam to carry out surveillance missions over the South China Sea.

The sea lanes from the Indian Ocean through the Strait of Malacca, around Singapore and up through the South China Sea are the petroleum lifeline of our friends in East Asia. Any potential adversary's ability to choke off these narrow seas must be, inevitably, of abiding concern to our friends in that part of the world. We have seen since 1978, the product of what must be a determined Soviet intent to establish this kind of potential choking grip.

As we seek to protect our interests in the region and those of our friends and allies against the growing potential threat, we believe that our policies and approach enjoy inherent advantages over those of the Soviet Union and its surrogates. The Soviets appear to believe that a country must be remolded in the Soviet image if it is to be a reliable friend. Others must be intimidated by

military power. Our interests, however, are not threatened by true independence and diversity. Our policies support independence, strengthen the capabilities and confidence of our allies and friends to resist intimidation, and do so without demanding conformity. Our force presence in the Western Pacific offers reassurance that we can come to the aid of our friends against external threats which are too big for them to handle alone. Our security assistance helps each country strengthen its own self-defense capabilities, reducing the probability that it would need to ask for help from outside military forces. At the same time, security assistance, combined exercises, and military-to-military contacts make the military forces of our friends in the region more able to operate with our own and thereby more capable of effective combined operations were they ever required.

We have healthy bilateral defense relations with Indonesia, Malaysia, and Singapore as well as with our treaty allies, Thailand and the Philippines. We also encourage and support—without seeking to dominate or, unless asked, even participate in—the various arrangements for mutual cooperation established by the nations of the region. We see as in our interest as well as theirs, the evolution of ASEAN from purely economic cooperation toward political cooperation, most notably in their concerted policies toward Vietnamese occupation of Kampuchea.

We are also pleased to see the continuation of the five power defense arrangement, a defense agreement which includes the commonwealth partners—Malaysia, Singapore, Australia, New Zealand, and Britain. They hold a series of military exercises involving the small but important Australian and New Zealand air and ground units which are maintained in Malaysia and Singapore and the increasingly competent forces of those two countries. Because it strengthens the ability of its members to resist Soviet and Vietnamese intimidation, the five power defense arrangement is an excellent example of regional cooperation in which our interests, as well as those of its members, are served without our participation.

The pattern of defense cooperation in the region is that of multiple bilateral U.S. relationships and regional arrangements in which our efforts play a supporting role. Within this loose framework of defense relationships among the countries of Southeast Asia there is a recognition of the need for the United States to play a responsible and sustainable role in upholding the stability of the region. Our ability to play a sustainable role depends, in the main, on the support the American people and the Congress give to this effort. The continuation of an American commitment to this region, to our two treaty allies especially, cannot stand without firm roots here at home. We have, since the Second World War, spent immeasurable amounts of blood and treasure in this part of the world. We have seen, particularly over the last decade, American economic interests in these resource-rich, fast-developing countries grow steadily. We know that particularly in the ASEAN group there are some of the most vibrant economies in the world today. This region is not one we can walk away from. We are tied by treaties, by friendly relations, and by our self-interest to the success of our friends there.

Ambassador HOLDRIDGE. May I quickly endorse what Secretary Armitage has just said about Admiral Long. I regard him as an outstanding soldier and statesman. I am just delighted personally and officially that he will be kept on for another year.

Senator HAYAKAWA. Thank you, Mr. Holdridge, and thank you, Secretary Armitage.

Is Mr. Nalen here yet?

[Pause.]

Senator HAYAKAWA. I see that he is.

Good morning, Mr. Nalen. I will call on you after I have questioned Mr. Holdridge and Mr. Armitage.

Mr. Holdridge, we have learned through the press that the President approved an 8-page national security decision memorandum on our national strategy during the third week of May.

The press has also given considerable coverage to a speech by the national security adviser, Judge Clark, which he made to the George-

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town University Center for Strategic and International Studies on May 21, apparently explaining "a new global strategy."

The Congress has been in recess much of the time since these events. Would you elaborate on the press coverage and tell us what the main features in the strategy might be, particularly as they may relate to the East Asian and Pacific region.

Ambassador HOLDRIDGE. Let me simply say, Mr. Chairman, that I know there has been a considerable amount of press attention to an alleged change in U.S. strategy. But I want to say, regardless of what the reports may indicate, that the thrust of these reports is not correct. There has been no change in our security relations with East Asia, and there likewise has been no change in the priority and importance we give to our security relationships and to our military presence in the area.

Senator HAYAKAWA. Thank you. What were they talking about, then?

Ambassador HOLDRIDGE. I beg your pardon?

Senator HAYAKAWA. What were these newspaper stories talking about, then?

Ambassador HOLDRIDGE. Well, I am afraid that sometimes the press may pick up certain aspects of a situation and take these aspects out of context. But again, I want to reiterate, there has been no change in our posture or in our policy with respect to our security relationships.

Senator HAYAKAWA. I am relieved to hear that.

Mr. Armitage, the press has also reported extensively on what is described as "the first complete defense guidance of the Reagan Administration," a 126-page document recently approved by Secretary Weinberger.

Could you explain how this defense guidance affects our policies and programs in the East Asian and Pacific affairs?

Mr. ARMITAGE. Well, Mr. Chairman, indeed it does exist. I have it here. I do not know whether it is 126 pages or not, but I would say that I cannot go into much detail at all. It is a classified document and I would be glad to discuss it in closed session with you.

However, I can say, as Secretary Holdridge has already stated, there is absolutely no change in our policy toward East Asia. Indeed, in my preliminary remarks I referred to the extraordinary number of high-level visits we have had to the region. Secretary Weinberger's trip to the Philippines was the first by a Secretary of Defense in at least 12 years. I think this gives you an indication of the high interest we have in the region.

Senator HAYAKAWA. Thank you.

To come back to you, Mr. Holdridge, you alluded in your prepared statement to elections in several ASEAN countries, and I believe Indonesia was one of these.

Ambassador HOLDRIDGE. Yes.

Senator HAYAKAWA. Did these elections extend to Timor?

Ambassador HOLDRIDGE. Yes, Mr. Chairman, this election did extend to Timor. There were four people elected from Timor to the National Assembly and 34, I believe, to the provincial assembly. East Timor is a province of Indonesia, so elections did take place both on a national scale and on the provincial side.

Senator HAYAKAWA. There were four that went to the national assembly?

Ambassador HOLDRIDGE. Yes, four went to the national assembly, and I believe it was 34 that were elected to the provincial assembly in the course of these elections.

Senator HAYAKAWA. Thank you very much.

[Pause.]

Ambassador HOLDRIDGE. I am sorry, Mr. Chairman. I believe it was 32 that were elected to the provincial assembly.

Senator HAYAKAWA. In your prepared statement you mentioned that you hoped you could point to some positive results from the Versailles summit. Now that the summit has concluded, what do you consider to be its principal accomplishments and how will these affect our friends in Southeast Asia?

Ambassador HOLDRIDGE. Well, I would say certainly a reaffirmation of the world free trade system and the resolution to resist protectionist pressures and trade distortion practices, working toward the opening of markets, to cooperate with the developing countries, to strengthen and improve the multilateral trading system, to expand trading opportunities for the newly industrialized countries, to maintain a high level of financial flows and official assistance to the developing countries, to support the work of the regional development banks and cooperate with the developing countries in innovations in the World Bank, and to seek the progress in countering instability of commodity export earnings and the encouragement of private capital flows.

All of these came out of the Versailles summit, and of all of these should be of great assistance to the developing countries in general and to the ASEAN countries in particular.

Senator HAYAKAWA. Thank you. I am very glad to hear that.

You also mentioned the use of chemical agents in Indochina. I believe the Department has recently released another report on what is called yellow rain. Do you believe the U.N. investigation will go forward?

Ambassador HOLDRIDGE. Yes; indeed it will.

Senator HAYAKAWA. What does the administration plan to do next?

Ambassador HOLDRIDGE. Well, we of course are going to encourage the United Nations and other international bodies and world public opinion to continue to focus on this issue. The facts are now conclusive. I don't think anyone would argue that there has been other than a deliberate campaign by the Vietnamese, with Soviet support to carry on the biological warfare campaign in Kampuchea and Laos. And we also see evidence in Afghanistan.

We have, as you have said, issued a white paper on this subject. This is an unclassified document. We have recently sent a mission around to various world capitals which repeated the same information, but in a more classified form.

This is the kind of thing we will continue to do to focus the attention of appropriate agencies, officials and public opinion on the facts of this situation.

Senator HAYAKAWA. Thank you, Mr. Holdridge.

You discussed the ASEAN position on Kampuchea in your prepared remarks. But you did not mention the "Chinese factor," which

I mentioned in my opening remarks. Could you describe for the committee the Chinese position and how we and the ASEAN governments view it?

Ambassador HOLDRIDGE. First, Mr. Chairman, let me say there is no difference between the ASEAN countries, the United States and China on the basics of the Kampuchean situation, which is to get the Vietnamese out of the country and to permit the exercise of the free will of the Kampuchean people and to establish a neutral government which is acceptable to all.

This was embodied in the resolution of the International Conference on Kampuchea of July of last year. We have all subscribed to that. So essentially there is no difference in the basic policy or the objectives.

But when it comes to how this is to be brought about, there may be some differences, for example, with respect to a coalition government. But certainly, while there may be differences with the Chinese view of a coalition government and the ASEAN view of a coalition government, the essentials are still there.

I might say, the coalition government is by no means the crucial element in this situation. It is important to keep the Vietnamese isolated politically and economically, and there is agreement on that score.

Again let me say, in general, while there may be some differences of approach on the question of the coalition, there is no question or difference on the basics of the situation. We all are pointed in the same direction on that one.

It remains our policy to support the ASEAN countries in what they want to do. As I mentioned in my extemporaneous remarks, we have been following this policy since the beginning of the administration and will continue to do so.

Senator HAYAKAWA. Thank you.

We really do not have any serious differences with the ASEAN countries on Kampuchea and the necessity of driving the Vitnamese out?

Ambassador HOLDRIDGE. No; we do not. There may have seemed, a year ago in July in New York, a difference. Each side, that is the Chinese on the one hand and the ASEAN countries on the other, thought we were leaning in the other direction. But our job was to try to bring together two widely separated points of view.

We thought that it was important that there not be a division between the Chinese and the ASEAN countries on the floor of the International Conference on Kampuchea. The only beneficiary of a situation such as that would have been the Vietnamese, and of course the Soviets who support the Vietnamese. So we suggested that it was not beyond the realm of diplomacy to bring these two widely divergent points of view closer into accord.

That is actually what happened finally. There was indeed a resolution which was supported by the ASEAN countries, by China, and by all the other participants in the International Conference, including ourselves. That has been the position we have been following ever since, calling for the withdrawal of all Vietnamese troops from Kampuchea, the exercise of self-determination by the Kampuchean people, and the establishment of a regime truly neutral and acceptable to all parties.

Senator HAYAKAWA. Thank you.

You mentioned the refugee situation. The committee was recently informed that additional Cambodian refugees will be admitted to the United States, but we understand this policy has run into some roadblocks at the Immigration and Naturalization Service.

What is the status of the Cambodian refugee problem right now?

Ambassador HOLDRIDGE. We are concerned about the fact that there has been apparently some difference or misunderstanding as to what the guidelines should be between officers in the field and headquarters, so to speak, back in Washington, D.C. We have been working very closely with INS to remove these misunderstandings. We anticipate that if any problems have cropped up they will be eliminated shortly.

Senator HAYAKAWA. Thank you.

I am pleased that you say the administration assigns highest priority to the problem of U.S. servicemen missing in Laos and Vietnam. Could you tell us the status of the request for information which I made to the Laotian Government last August? Have you followed up with the Lao on these dossiers?

Have the Vietnamese agreed to visit our Casualty Resolution Center in Hawaii as a result of the Armitage mission to Hanoi earlier this year? Perhaps Mr. Armitage would also like to answer this: Has the center's liaison officer in Bangkok gained permission to visit Hanoi?

Ambassador HOLDRIDGE. Let me pick up on the first element. As far as Laos is concerned, we regret that the Lao have not been as forthcoming as we had anticipated following your visit. I have just presented you the letter which they have written to you concerning the question which you had raised. I do not find it particularly responsive.

Instead of talking about ordnance disposal and assistance in that regard, they in effect have asked for reinstitution of an aid program in Laos, and have made no reference to assistance of any tangible and direct nature in the question of locating the remains of MIA's. They talk about it in general terms, but not in specifics.

I think we need to have some more discussions with the Lao. As you know, we made some gestures toward the Lao in trying to see if we could not get some response from them. Again, we were disappointed in their reaction.

When Secretary Armitage was with his group, we asked that the group stop off in Vientiane following its visit to Hanoi, and the Lao said no. There the matter rests. We are not going to let it just be static. We will continue to pursue the situation with the Lao.

But I have to say, so far we have not received much response to our own expressions of goodwill and our efforts to get them to be more responsive on their side.

Now, on the question of what the Vietnamese are doing, as you know, the VVA [Vietnam Veterans of America] was just there and the Vietnamese have apparently asked for more information concerning MIA's. We are not sure exactly what is involved here, because for a long period of time we have provided information as to crash sites and the names of people we identified as having gone down with their aircraft and so on.

So we are not sure exactly what the Vietnamese are asking for here. But if they want some more information as to, say, ways of identifying through medical records, dental records and so on these persons, we will be happy to provide this information.

As one of the results of my colleague's visit to Hanoi, they have agreed to send some people to the JCRC Center in Hawaii and will be going I suppose some time during the summer. They have agreed in principle to accept further visits from some of our people in Thailand.

But we will continue to chip away at this problem. It is one we are not going to let rest.

Perhaps I could call on Mr. Armitage to add a few words.

Senator HAYAKAWA. "Chip away" is a good term to use. It conjures up a very specific image.

Mr. ARMITAGE. It is indeed extraordinarily frustrating, and we do indeed seem to chip away at the issue.

As Secretary Holdridge correctly points out, the Vietnamese indicated during my visit that they would like to send a team to Honolulu. This was at our invitation. They have further indicated that late summer looks like a convenient time. It also looks like it will be convenient to us, so we hope to entertain that trip.

Regarding the VVA trip to Hanoi, we took note of the fact that the Vietnamese spokesman, in his mention of the turning over of remains or at least of the information or remains to the delegation, stressed that he was dealing with the American people. I will say this is a direct result of the visit that we undertook in February, where we stressed that the interest in the MIA/POW matter is not simply the interest of the Reagan administration, but is the interest of every administration, because it is very high in the minds of all of the American people.

So we feel there has been some progress made.

Ambassador HOLDRIDGE. May I add, Mr. Chairman, that the Vietnamese now seem to think that it is appropriate for them to work through the VVA. We think a better way of handling this problem is directly government to government, and not through our private organizations. It is much more effective.

Indeed, the Vietnamese are obliged to provide information on POW's and MIA's. The best way to handle that in our judgment is on a government-to-government basis.

Senator HAYAKAWA. Thank you.

I have one final question to you, Ambassador Holdridge. One country in Southeast Asia which has not been mentioned in all of this discussion is Burma. How would you characterize our relations with Burma?

Ambassador HOLDRIDGE. I think our relationship is good. I would hope to see the relationship grow. The Burmese are now looking more toward outside assistance in developing the Burmese road to socialism. In this regard, we have been able to increase the amount of economic development assistance provided to Burma, and we are considering other ways in which we might be helpful.

As I mentioned to you, Mr. Chairman, I myself plan to stop in Rangoon in the course of my visit to Southeast Asia, and I hope to be able to talk to appropriate officials in Burma to see where we might be supportive of the kind of things in which they are interested.

I might add that the Burmese have also been quite cooperative with respect to the narcotics issue, and perhaps there is more we might be able to do in that regard as well.

Senator HAYAKAWA. That is good. Thank you.

Mr. Armitage, you mentioned that the fighting in Kampuchea has, if anything, intensified this past dry season. What do you assess to be the net result of the campaign just concluded? Are the Vietnamese in a better position than a year ago or are the Pol Pot forces? What is the status of the Sonn Sann forces?

Mr. ARMITAGE. I did indeed remark that the Vietnamese had pressed the attacks more strenuously than in the past years, with, I think, limited military results. They have not been able, of course, to pin down, if you will, the most formidable foe that they face, the troops of Pol Pot. They fight a series of shadowy battles. The DK does slip away from them whenever they try to get them committed to a decisive battle.

So militarily they are basically in the same position, except as regards the forces of the KPNLF. As we all know, there was a rather set piece battle against some of Sonn Sann's forces at Sckh San and a defeat was administered to the KPNLF troops at that spot.

But the Vietnamese are in a better position in that they have remained in Kampuchea for a further year. They have strengthened their hold over Kampuchea. So in that regard they are in a somewhat better position.

As regards the status of Sonn Sann's forces, it is our unclassified estimate that there are 6,000 to 8,000 effectives.

Senator HAYAKAWA. 6,000 to 8,000 what?

Mr. ARMITAGE. 6,000 to 8,000 effective fighters.

And as regards the troops of Pol Pot, between 20,000 and 35,000 effective troops.

Ambassador HOLDRIDGE. May I add a word?

Senator HAYAKAWA. Please do.

Ambassador HOLDRIDGE. While I would agree that the Vietnamese certainly were more active and that they have put the Kampuchean resistance forces on the defensive pretty well, and that they are pretty much a factor in Kampuchea, it does not mean the resistance is crumbling. The resistance is still there.

What we have seen is a completion of a dry season offensive by the Vietnamese troops, and it has now been raining in Kampuchea for over a month. The rains came early this year. Many people expect that the gains militarily which the Vietnamese achieved during the dry season probably will be undone during the rains.

In fact, I have seen some military reports coming out which speak of large sections of the railroad from Batambang back through Phnom Penh having been cut for periods of time, and roads which also have been cut. In other words, the struggle still goes on with no end in sight. This, of course, will be a drain on Vietnamese resources, manpower and economic backing. It will put a strain on the whole body politic, and I think it is being felt.

Senator HAYAKAWA. In other words, that is reasonably good news.

Ambassador HOLDRIDGE. Well, the war goes on. It is the kind of situation which the Vietnamese are going to have to endure—the fact that they are now isolated to a very remarkable extent politically on the world scene, and also economically, thrusts them on the resources of one donor nation essentially, the Soviet Union, and the Soviets have their problems as well.

It is quite clear, I think, from watching developments in Hanoi over the last year, especially the Party Congress which took place in March, that the Vietnamese are indeed feeling the pinch.

Mr. ARMITAGE. I might just add, sir, that the Vietnamese put a great deal of store and faith in their nationalism, but they now have found out that the seeds of Khmer nationalism are extraordinarily difficult to eradicate.

Senator HAYAKAWA. Mr. Armitage, in January we sent air defense weapons requested by the Thai Government, and in the last several weeks we airlifted howitzers and expedited a shipment of M–48 tanks, and so on. The Thai have expressed a need for aircraft. That has not been mentioned.

What plans does the administration have for additional aircraft?

Mr. ARMITAGE. I must say, we have not received an additional request from the Thai Government for aircraft, Mr. Chairman. As you are so aware, we know that their present inventory consists of many types of aircraft—F–5A's and F–B's, F–E's and F–F's, T–28's OV–10's, A–37's, transport aircraft, C–47's, C–130's and C–123's. And we know that the Thai Government is very interested in an advanced aircraft—the F–16, the F–5G, and the A–10.

But as yet they have not officially requested pricing data on any specific aircraft for purchase.

Senator HAYAKAWA. Thank you.

I am very glad that you gave quite a bit of space to the Philippines and to what you describe as our very special relationship with the Philippines. When I visited there last, Gen. Carlos Romulo talked at length about the feeling of blood brotherhood that the Filipinos had toward America because we had shed blood together against the Japanese.

But the same thing was told to me by the proprietor of a little Filipino cafe, and was told to me by a taxi driver: That the Americans and Filipinos have this deep blood brotherhood. The cafe operator, once he found out I was a Senator, wanted to know immediately if I could get his son into the U.S. Navy.

But this kind of special relationship does exist. There is no question about it, except that the people on this side of the ocean, in the United States, many of us do not know about it. But I was very much impressed with the depth of that feeling.

Though you discussed our relationship with the Philippines, you did not mention the status of the Moro rebellion in the south or the activities of the New People's Army. These are pretty serious problems, are they not?

Mr. ARMITAGE. Yes; they are. Before I answer my question, I just want to say something. I am delighted to see that a Senator rides in a taxi like the rest of us. [Laughter.]

Regarding the MNLF and the New People's Army in the Philippines, the Moro National Liberation Front, which is primarily active in Mindanao, Mr. Chairman, numbers approximately 12,000. Over the past year we have seen a decrease in activities. This is not due solely to an increase in Philippine military activity. There have been political and civic action programs applied against the MNLF.

I mentioned President Marcos' successful trip to Saudi Arabia, where he was, it appeared, somewhat able to keep international Islamic sympathy for the MNLF down, which of course is helpful.

There has been an increase in civic action programs in Mindanao and this helps eliminate some of the causes for the ethnic insurgency.

Now, as regards the New People's Army or the NPA, it is our unclassified estimate that there are perhaps 6,000 regulars, if you will, with perhaps again as many sympathizers. These insurgents are basically conducting two-pronged approaches. One is rural and the other is urban.

As we are all aware, and as Secretary Holdridge mentioned in his testimony, there is high unemployment, I believe reaching as high as 24 percent, in Manila, and this gives rise to urban dissatisfaction. Of course, the sugar, copper and coconut markets are down, and this gives rise to rural dissatisfaction.

The New People's Army has been able to take advantage of this. Though their numbers are not great as the MNLF as yet, they have been slowly increasing over the years. So this is certainly not a favorable sign.

Senator HAYAKAWA. I am a member of the Agriculture Committee, so this question bothers me. What about our sugar program and our protection of our beet sugar people? Does that adversely affect the Filipinos and their sugar exports?

Ambassador HOLDRIDGE. I think I can answer that, Mr. Chairman. In the case of the Philippines, no. They have been able to handle a lot of their sugar exports by switching them over pretty well to the Soviet Union. And the quotas that we have in effect for the Philippines will adequately take care of Philippine export requirements. It is not going to be a hardship for the Philippines, though it will be a hardship for some of the other countries, who will find they will be shipping less, in some cases considerably less, than they have been shipping in previous years.

We are trying to work this out in such a way that we can minimize the adverse economic effects on all the countries concerned in East Asia.

Senator HAYAKAWA. I am a little bit uncomfortable about that sugar program. I will discuss that with the Agriculture Committee.

Mr. Armitage, you discussed the Soviet presence in Southeast Asia. But I do not have a feel for whether it has increased, decreased, or is essentially the same as last year.

Mr. ARMITAGE. As far as the Soviet military presence in the three countries—Laos, Kampuchea, and Vietnam—the total numbers are approximately the same as regards military presence. The civilian presence has increased slightly, primarily in the economic ministries of these governments. They are there, we feel, primarily to handle the aid which is funneled into these countries.

So overall you have a slight increase in personnel, military and civilian, in Indochina. But of course, the Soviet presence is much more than just people on the ground. We have made much of the Soviet use of Danang and Cam Ranh Bay, the use of those former bases of ours. We found again an increase in the area. On any given day, you may have four or so Soviet aircraft operating out of the region and as many as 8 to 10 ships of all different sizes in Southeast Asia. That is a slight increase, Mr. Chairman.

Senator HAYAKAWA. Thank you.

While I am on the subject, our two bases in the Philippines, at Subic and Clark, what is the timetable for review of the agreement on these bases? What do you believe will be the issues involved in this review?

Mr. ARMITAGE. We have agreed with the Government of the Philippines to enter into the review in the late summer of next year, that is the summer of 1983. Of course, the review is to be completed by 1984.

As for the review, I think the issue clearly will be one of compensation.

Senator HAYAKAWA. I see. There are no ideological or political problems involved, then? It is just money?

Mr. ARMITAGE. Well, none have cropped up on the horizon yet. We feel we have been very successful in implementing the 1979 amendments to the Bases Agreement, in removing most of the irritants that existed them.

Ambassador HOLDRIDGE. May I add, Mr. Chairman, at the moment we are discussing with the Philippine authorities the subjects of customs, immigration, and quarantine at the U.S. facilities at Subic and Clark. These are minor irritants, as Mr. Armitage has said. If we can get these out of the way as we sit down with the Philippine Government and talk about the review of the bases agreement, then I think it will simplify our situation considerably.

So we are trying to address these other problems first and clear them off the table, so to speak.

Senator HAYAKAWA. My last question, Mr. Armitage, is this. You said that the Soviets have deployed SS–20 missiless to the Far East region of Russia. What is the range of these missiles? Do they directly threaten our friends in Southeast Asia?

Mr. ARMITAGE. Well, in kilometers it is 5,000, so that is somewhat over 3,000 miles, about 3,100 or 3,150 miles. 5,000 kilometers is what we state as the range of an SS–20. Of course, they are mobile, so they can be moved.

Senator HAYAKAWA. They could be.

The Joint Chiefs of Staff in their annual report to Congress said the United States-Soviet military balance in East Asia and the Pacific is unfavorable and continues to deteriorate. Is this serious? Is this a serious deterioration in our situation there?

Mr. ARMITAGE. Well, indeed. The deterioration is because of the years that we went by with no augmentation to our forces, while at the same time, the Soviets were putting massive amounts of their GNP into military modernization. So they are now taking delivery of their systems and we are on the drawing boards with ours. So, consequently there is a deterioration in the balance that exists at present.

We feel qualitatively that we certainly are a match for the Soviets in East Asia. But quantitatively there has been a serious deterioration.

Senator HAYAKAWA. Ambassador Holdridge and Secretary Armitage, I am very grateful to you both for your very expert testimony this morning. I find this to be the most exciting and fascinating of my subcommittees, and I am very grateful to you for the additional light you have thrown on these problems for us this morning.

Thank you, Ambassador Holdridge and Mr. Armitage.

Mr. ARMITAGE. Thank you for your interest this morning.

Ambassador HOLDRIDGE. Thank you very much, Mr. Chairman. It was our pleasure.

Senator HAYAKAWA. Mr. Nalen, would you please come forward to the witness table.

Our next witness is Mr. Craig A. Nalen, president of the Overseas Private Investment Corp.

We will be grateful for your presentation, Mr. Nalen. I would appreciate it if you would summarize your statement somewhat and give us the gist of it, so that we can proceed to some questions. Please proceed, Mr. Nalen.

STATEMENT OF HON. CRAIG A. NALEN, PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. NALEN. Thank you very much, Mr. Chairman.

Let me at the outset assure you that we will not go through the 23 pages of my prepared statement. In fact, the testimony which we submitted to this subcommittee is rather comprehensive on the subject. With respect to that statement, I would like, with your permission, to submit it for the record.

I would also like to take this opportunity to submit a copy of our annual development report which, by mandate, we are required to publish each year. This has recently been completed, and I would like to also submit that for the record, sir.

Senator HAYAKAWA. We are very grateful for that and it will be included in the record. Thank you.

Mr. NALEN. Thank you.

To ask us to talk about OPIC's role in Southeast Asia is a bit like asking a Congressman to talk about his golf game. [Laughter.] You have really hit upon one of our strengths, and we will proceed with a great deal of enthusiasm.

Actually, OPIC has spent a great deal of time and paid a great deal of attention to Southeast Asia, although much of the publicity that has been focused on OPIC recently is in connection with other areas, such as our Caribbean Basin program, which was in response to the President's highly publicized Caribbean Basin Initiative, and of course the President's recent trip to the Caribbean, which we were asked to join. Some attention has also been focused on our involvement with the African nations, again partly because of an extended trip we undertook earlier this year with Secretaries Baldrige and Block. More recently a lot of attention has been focused on our Egyptian involvement, wherein last month we produced and sponsored the world's first "Telemission," which was essentially an investment mission linking President Mubarak and his chief ministers in Cairo with 700 Americans in six U.S. cities via satellite technology.

In spite of all these other activities, Southeast Asia has been an area of considerable interest and activity for OPIC. The fact that you might not be aware of this, however, is not surprising. OPIC, as the old saw goes, continues to be Washington's best kept secret. We have been working very diligently to correct this problem, this image or awareness problem, and I think we are making some progress.

The fact is, we were invited here this morning to make an appearance before this distinguished subcommittee, and that in itself is a

major achievement for us. Needless to say, one thing we are not is bashful, and we are delighted to have this opportunity.

OPIC has been exceptionally active in Southeast Asia. Perhaps the best way to reflect that is to talk just a little bit about a couple of the projects that we have been doing in this region, which I think gives you an insight into the kind of activity in which OPIC is engaged.

Let us take one project, the Freeport Minerals copper mine in Irian Jaya, Indonesia. Not only is this a very major undertaking, but to give you some statistics, it will provide $140 million of copper exports for Indonesia, and it will provide foreign exchange savings of over $47 million. But beyond the financial impact, there is the transfer of tremendous amounts of mining technology. And beyond that, this very far sighted company has engaged in setting up health care facilities, free medical services, three separate clinics, provided educational facilities, free education, college scholarship programs, and agricultural endeavors in the development of hybride vegetable seeds which are improving food strains in Indonesia.

Essentially, it is what I would consider the ideal type of developmental project for a Third World country. One should not lose sight of the U.S. effects of this project; it will create over $40 million of new U.S. exports per year.

OPIC's projects range from that to smaller companies, which I will not get into in much detail. However, we have assisted metal stamping companies, companies that manufacture rubber gloves, and other projects. In the pharmaceutical area, beyond just employment and foreign exchange benefits, and technology transfer benefits, Abbott Laboratories was a product that it is producing in Indonesia, Ethambutol, which is an inhibitor of tuberculosis and has had a major impact in cutting down on that disease in Indonesia.

Perhaps the largest and best known project that we have been associated with in Southeast Asia has been in Thailand, and that has been a natural gas project. There is an estimated import substitution of $340 million per year for Thailand due to this project, and foreign exchange savings of over $270 million.

There are U.S. benefits as well. Out of the total of $351 million of investment, about $128 million will be spent in the United States on engineering services. The project will return an estimated $65 million a year to the United States for the 20-year life of the project, or about $1.3 billion total.

Finally, there is another company, a private agricultural company that again exemplifies a variety of developmental impacts in a remote area of Thailand which the government is trying to develop. It is a tapioca processing operation, which will have a significant transfer of technology benefit in pelletizing tapioca for export, export in this case to the Common Market of Europe. It employs about 200 people and will have over $43 million of exports per year.

So these are some of the kinds of projects that we are engaged in in Southeast Asia. Now what is OPIC doing to increase U.S. investment there? A whole variety of techniques which we have described in some detail in the written testimony ranging from seminars that we are holding throughout the United States to investment missions, which we have alluded to. And as a matter of fact, we will be taking an investment mission to Thailand within the next month.

We offer feasibility studies, which are so important to encourage U.S. investment in Third World countries.

Unfortunately, the demand for those is far exceeding our supply, which is regrettable, since these are major elements in encouraging investment in Third World countries. We are utilizing training grants, which again are describing in the testimony, in a very developmental project where we are cosponsoring and in fact are the lead sponsor. It involves the host countries' private sectors providing funds, as well as U.S. private sector companies, to educate and train approximately 50 middle management executives in each of the five ASEAN countries in U.S. technology.

And finally, we have personal commitments by myself and other officers in our corporation. Our general counsel has just returned from Southeast Asia and China. Mr. Gaines, our executive vice president, sitting behind me, has conducted a food production seminar here in this country. He and I have attended and spoken at ASEAN-United States business councils in Kuala Lumpur within the last several months. Mr. Gaines also will be the chairman of the forthcoming investment mission to Thailand.

What have been the results of OPIC's efforts? I think taking a look at the bottom line is the best way to answer that. There has been a tenfold increase in new investments in Southeast Asia supported by OPIC within the last 4 years. Specifically, back in 1978 OPIC was involved with investments of $32 million for the ASEAN countries. Last year, 1981, that total exceeded $400 million.

The cumulative value of ASEAN investments supported by OPIC insurance as of April of this year has reached $597 million. Perhaps another way to measure is that the ASEAN projects represent about 20 percent of OPIC's worldwide portfolio.

The developmental impact on the ASEAN countries is also impressive. Back in 1978, those projects had produced, by estimate, about 1,900 jobs. In 1981 that figure had reached almost 6,000 jobs. And there has been a positive impact, I might add, on our own U.S. economy, where there were some 4,400 jobs created in 1981 as a result of these ASEAN investments. Finally, the foreign exchange accrued annually to the ASEAN countries has gone from $15 million in 1978 to $44 million in 1980 to over $300 million in 1981.

Well, that is the good news. The bad news is we have only scratched the surface of the opportunities in Southeast Asia. Southeast Asia represents a region of the world that has tremendous potential for the development of U.S. trade and investment activities, and thus far we have really not fulfilled that potential.

We lag behind—and this is important—we lag behind our competitors, and in some cases we lag behind significantly. I am referring there not only to European countries, but of course most specifically to Japan.

At the risk of oversimplification, I would like to conclude this testimony by mentioning three factors that have traditionally kept our private sector from achieving its full potential in Third World markets in general and in Southeast Asia in particular.

The first of these three are performance requirements and redtape which are so prevalent in these host countries. But having said that, I would also like to add that there has been a very noticeable trend,

measureable in fact even over the last 4 to 9 months, of a relaxing of many of these impediments.

As an example, I was interested to hear Ambassador Holdridge talk about the Philippines and the good relations that he is finding there. This was not always the case with OPIC, but thanks to a great deal of ground work by our agency and a personal conversation I was fortunate enough to have with Mrs. Marcos back in December, where I revealed to her the fact that because of Philippine "redtape," we were holding up on some 30 projects of American investors who wanted to go forward with investment in the Philippines. Mrs. Marcos apparently personally intervened and suddenly some doors opened and the logjam was freed up.

Since then, even more barriers have been removed and projects are going forth in the Philippines at a very heartening rate, so much so that I have accepted her invitation to visit the Philippines on the return from my forthcoming mission to Thailand to discuss the possibility of conducting an investment mission there perhaps early next year.

But beyond that, I think we are seeing in these Third World countries around the world, but even more particularly in the ASEAN region, a very active campaign by the countries themselves to attract foreign investment. I think they see the writing on the wall with respect to reductions in concessional foreign aid from the developed nations and, rather than the general misconception of a resentment of foreign investment, they welcome it very actively.

The second impediment that we see that prevents us from fulfilling our potential there, is the very aggressive competition we are getting from other developed nations, and particularly I refer to Japan, and not only from the private sector companies themselves, but from the far more aggressive investment encouragement programs coming from the governments of our competing developed nations.

I am afraid the level of competition from our Japanese competitors is not likely to go away. In fact, it will probably continue to intensify and we are seeing the same thing coming from the Germanies and the Frances of this world. I do not know whether these governments will continue to as aggressively encourage private investment and work closely with their private sectors. For example, I refer to very aggressive insurance programs similar to OPIC's.

The third stumbling block is quite different from the first two. I think, as Pogo said in his comic strip a decade or so ago, "we have met the enemy and he is us." And by that I am referring to indifference here in our own country to business opportunities overseas.

I do not think there is any question that the American business community has been asleep at the switch with respect to the opportunities overseas, and we can only blame ourselves. Although again I am cautiously optimistic in believing that we are seeing a shift in sentiments and actions here in the United States. From a government level, there seems to be a growing awareness of the need to modify certain tax and legislative programs that have become serious disincentives to American businessmen.

By that I am referring to the tax on foreign earned income, and also a move by the administration to modify somewhat the Foreign Corrupt Practices Act. In addition, there are recent efforts to develop

BIT's, or bilateral investment treaties, which are going to have a very positive impact on the U.S. private sector.

In addition to these developments, I think there is no question that President Reagan and his administration have been very effective in focusing attention on the role that he expects the private sector to play. I think the private sector is gradually beginning to respond.

All this has made our role at OPIC a little bit easier. Our programs are being better received. There seems to be a lot more interest, not only in terms of the support we are getting from the White House, but in terms of the private sector s response.

And this finally brings us to the private sector itself, and here there does seem to be a shift in attitudes, spurred in part, as I mentioned, by this administration's support, and perhaps partly from the discovery that it is not so easy any more to look to our own economy for year-to-year increases in sales and earnings. Our economy is perhaps, at least temporarily, reaching some limitations, and the private sector is now beginning to view the opportunities that have existed collectively in the Third World market, which is the fastest growing market, as we all know, in the world.

In any event, I think we are seeing a very heartening reawakening of the old Yankee trader spirit. And so, while it is important not to get swept away on a cloud of euphoria with respect to the trends that we think we may be seeing in the levels of U.S. investment throughout the developing nations of the world, and particularly in Southeast Asia, I do think it is fair to say that the signs look very encouraging.

It will, however, take a continued and concerted effort on the part of the business community and the Government to insure that the United States strengthens its commercial presence in Southeast Asia in a way that continues to serve the vital development interests of the host country themselves, as well as the interests of the American private sector.

Thank you, Mr. Chairman.

[Mr. Nalen's prepared statement follows:]

PREPARED STATEMENT OF HON. CRAIG A. NALEN

Mr. Chairman and Members of the Committee: I am pleased to have this opportunity to discuss with you the role of the Overseas Private Investment Corporation in furthering U.S. investment, trading interests, and overall developmental impact on Southeast Asia. OPIC has historically focused considerable energies on the Southeast Asian region, and under this Administration these efforts have been intensified with an associated increase in U.S. business activity. This is not to say that formidable challenges and impediments to U.S. commercial interests in this region do not exist. The increasing prevalence of trade-distorting performance requirements and other investment practices, and direct competition for Southeast Asian trade and investment from third-countries pose particular problems for both OPIC and the U.S. investor. Nevertheless, we are confident that the U.S. public and private sectors have the capability to successfully meet these challenges in the coming years and that prospects for expanding U.S. trade and investment in Southeast Asia are bright.

OPIC'S ROLE IN SOUTHEAST ASIA

As you know, OPIC is responsible for providing political risk insurance and financial services to U.S. investors in approximately 100 developing nations, our objective being the promotion of the development of these countries through selective encouragement of U.S. investment and trade. Over the past 4 years, OPIC's involvement in Southeast Asia, largely concentrated in the ASEAN countries, has

increased significantly. In fact, during this period, the total value of new ASEAN investments supported by OPIC services has risen over ten-fold, from $32 million for 11 projects in fiscal year 1978 to $403 million for 17 projects in fiscal year 1981. Over half of the increase occurred between fiscal years 1980 and 1981. While the majority of the projects were supported with OPIC political risk insurance, two investments in Indonesia of $101.5 million and $7.7 million, respectively, benefitted from OPIC financial assistance. Outside of the ASEAN group, a large mining investment in Papua, New Guinea, for which an OPIC loan guaranty was provided, was also supported by OPIC during this 4-year period.

Within the ASEAN group, OPIC insured in fiscal year 1981 six projects in Thailand with total investments worth $359 million. One of these projects, a large natural gas investment, accounted for approximately 90 percent of this total. This epitomizes OPIC's desire to encourage the development of indigenous energy sources. OPIC-assisted projects in other ASEAN countries included four projects in the Philippines with total investments of $16 million; three projects in Malaysia valued at $8 million; and two projects in Indonesia valued at $8 million. Although our Insurance program is restricted in Singapore by its high GNP per capita one $3.5 million project was insured. In the first 6 months of fiscal year 1982, OPIC insurance has thus far been provided for two projects in the Philippines valued at $22 million and one project in Thailand valued at $8 million. The cumulative value of investments in ASEAN supported by active OPIC insurance contracts as of April 30th of this year was $597 million, consisting of $228 million in the Philippines, $166 million in Thailand $140 million in Indonesia, $50 million in Malaysia, and $13 million in Singapore.

With respect to OPIC financing within the ASEAN group, Indonesia and the Philippines have been the primary users of this service. In fiscal year 1981 we provided a guaranteed loan to Indonesia for an automobile component factory with a total investment of $7.7 million and are currently considering an application for financing a cement plant. In the Philippines, we also funded a feasibility study in fiscal year 1981. Other projects in Thailand, Indonesia, and the Philippines, under consideration for financing, are at a more preliminary stage. The availability of alternative forms of below-market financing make OPIC financing less attractive, though still available, to Malaysia and Singapore. OPIC's financing is at near-commercial rates of interest, with a typical repayment period of 5 to 12 years and in most cases is provided on a true project finance basis, (i.e., without recourse to the project sponsors or the host government.)

The impact of these OPIC-assisted projects over the past 4 years, and particularly last year, on both the development of the ASEAN countries and the economy of the United States is impressive. The estimated ASEAN employment supported by these projects, in the fifth year of their operation, has increased from approximately 1,900 jobs for the fiscal year 1978 projects to 5,900 jobs for the fiscal year 1981 projects. In addition, the net positive foreign exchange estimated to accrue annually to the ASEAN countries as a result of these projects increased from $15 million for the fiscal year 1978 projects, and $44 million for the fiscal year 1980 projects, to a sizeable $300 million for the fiscal year 1981 projects.

These projects have brought benefits to the U.S. economy as well. Estimates of U.S. employment stimulated by these projects, due to initial procurement and annual production input needs over a 5-year period of project operation, have also shown significant increases. Over the last 4 years these U.S. employment-generated estimates have increased from 680 jobs for the fiscal year 1978 projects to 4,400 jobs for the fiscal year 1981 projects.

In summing up our role in Southeast Asia, OPIC has conducted a considerable volume of business in this region over the recent past, with increased emphasis in fiscal year 1981 under the initiative and direction of this Administration. This effort has resulted in our underwriting political risk insurance valued at approximately $285 million [1] for the ASEAN region in fiscal year 1981. This represents nearly 20 percent of OPIC's total worldwide insurance portfolio for fiscal year 1981. Moreover, cumulative OPIC insurance presently active in this region amounts to $1.5 billion. On the finance side, over 20 percent of OPIC's worldwide finance portfolio of $350 million has been devoted to funding projects in Southeast Asia.

I would like to underscore to you that our success in facilitating U.S. investment in the Southeast Asian nations has only served to increase our awareness of the numerous opportunities yet to be tapped. In the coming year OPIC could

[1] The political risk insurance represents maximum values for all three coverage types.

do considerably more business in the ASEAN region. We currently have pending applications for 80 projects for which additional insurance valued at $1.7 billion may be required. These pending applications represent investments valued at $617 million, the majority of which are in Indonesia ($413 million), followed by the Philippines ($[illegible] million), Malaysia ($84 million), Thailand ($18 million), and Singapore ($7 million). This potential business does not include some 10 energy projects, also pending, that would result in a significantly higher amount of insurance issuance.

EXAMPLES OF OPIC ACTIVITIES

While the aggregate numbers reported in the preceding section demonstrated in macro terms our commitment to providing insurance and other OPIC services to U.S. investors in Southeast Asia over the recent past, I would now like to focus more specifically on some examples of the types of business activities that OPIC has assisted in this region.

One of the projects with which we have been most proud to be associated has been an investment by Freeport Minerals Company in a copper mine in Irian Jaya, a remote area in Indonesia. OPIC provided both insurance and financing for the 1979 expansion of the mining enterprise, facilitating the development of a new underground copper deposit. The project is not only generating $140 million in copper exports for Indonesia each year, resulting in annual foreign exchange savings for the country of over $47 million, but has resulted in a significant transfer of mining technology to Indonesia.

The U.S. investor operates a sophisticated training facility offering programs teaching such skills as welding, electrical and mechanical maintenance, heavy equipment operation, and general management. Freeport has also brought advanced health care techniques to the area, providing free medical services at the three clinics it has built, as well as funding major tropical disease research programs. Employees and their families are offered language and other educational programs, and the investor makes grants to local and national university scholarship programs. Improved strains of vegetable seeds have been distributed to villages in the mine area, and the villagers are now selling their produce to the Company's stores.

It is apparent to us that this U.S. investor has taken very seriously its obligations as a corporate citizen in an underdeveloped region, contributing measurably to upgrading the skills and standard of living of the local populace. That Freeport has also been able to realize a good profit while promoting U.S. exports to the tune of some $40 million per year is evidence that U.S. private investment in Southeast Asia can be of great benefit for all concerned.

As you know, one of OPIC's mandates is to assist small business in their efforts to invest in developing countries. In 1980 we helped Buckbee-Mears Company, a small manufacturer of precision metal stampings and precious metal platings used in the electronics industry, to establish a subsidiary in Singapore. The project employs 44 Singaporeans and is training several of them in tool and die-making. Buckbee-Mears' output is both sold locally and exported to Singapore's ASEAN partners. The increased availability of these stampings and platings in the region should enable local users of lead frames to expand their production and may facilitate the growth of the integrated circuit manufacturing industry in the ASEAN region.

Sometimes the benefits of private investment for a country go beyond increased employment, foreign exchange savings, and technology transfer. I am referring to those cases where the product itself has a lasting and beneficial impact on the developmental process. An example of this would be the recent expansion of Abbott's pharmaceutical operations in Indonesia. The plant is the only one in the country that manufactures ethambutol, a major component in the medicine used to combat tuberculosis. Together with the company's research in this area, the increased availability of this product has contributed to the drop in the incidence of this disease in Indonesia.

Among the key concerns of the majority of the ASEAN nations, are the decentralization from major industrial centers and the on-site processing of primary raw materials. An OPIC-assisted project in Malaysia, undertaken in 1980 which was a joint venture between two U.S. firms and the Malaysian Government, accomplishes both of these goals. The investors established a plant that manufactures rubber gloves for household, industrial, and medical use. It is located in the State of Kedah, away from the large cities of Kuala Lumpur and Penang, and utilizes Malaysian rubber, providing value-added for a local product.

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In recent years, OPIC has developed several programs designed to promote investment in certain key sectors. One of the most successful has been our contractors' insurance program, wherein OPIC insures letters of credit that contractors often must post as bid bonds, performance bonds or advance payment guaranties against arbitrary drawdown by the host government. In Thailand, we provided such coverage last year to Harza Engineering Company International, a U.S. engineering company, when it contracted to perform engineering consulting services in connection with the Nam Mun and Lam Sae dams. These dams are part of a World Bank-sponsored project consisting of the construction of storage dams on the headwaters of the Mun River and the development of agricultural irrigation systems in the surrounding areas.

Thailand is also the location of another project assisted by one of OPIC's specialized programs. Under our oil and gas insurance contract program, we provided $100 million in coverage for a U.S. investment for the development of a natural gas field in the Gulf of Thailand. This project will provide significant financial benefits to the country. Estimated gas production will result in import substitution amounting to some $340 million annually: the net foreign exchange savings for Thailand should be approximately $270 million per year; and taxes on the investment will amount to approximately $45 million.

The financial benefits to the United States from this gas project are not insignificant either. Of the projected $351 million in total initial investment in the project, it was expected that $128 million would be spent in the United States for engineering services and equipment. Another $77 million would be spent in Singapore and Indonesia. The investor calculates that its average dollar return will be $65.2 million annually over the 20-year productive life of the project, totalling some $1.3 billion. In addition, the project has rendered feasible the establishment of a $500 million port-pipeline complex of which nearly $100 million will be procured by U.S. contractors and suppliers.

Finally, an OPIC-assisted investment that exemplifies a variety of developmental benefits is the recently insured Cargill project in Thailand which involved the drying, pelletizing, and shipping of tapioca for export to the European Common Market. The value of these exports is expected to exceed $43 million annually. The project will also provide employment and training for about 185 Thais. In addition, the project is stimulating agricultural development in the northern part of the country, a key priority for the Thailand Government.

I believe that these examples illustrate the positive effect of OPIC's various programs upon economic development in Southeast Asia as well as on the U.S. economy.

OPIC EFFORTS TO FURTHER U.S. INVESTMENTS

Although OPIC's services have typically been in great demand in the ASEAN region, we are taking specific steps to further stimulate U.S. investments in this area. Consistent with the Administration's objective to expand the role of the private sector in economic development, we are endeavoring to increase our business volume, and facilitate U.S. investment in the region. We have targeted specific industries that have been designated by developing nations as priority sectors. We have also targeted several regions of the world as being high priorties for OPIC, either because their markets provide the greatest opportunities for the U.S. business expansion—such as ASEAN—or because of U.S. Government foreign policy interests—such as the Caribbean Basin. OPIC services are being promoted in the ASEAN region through seminars, missions, feasibility studies, and training programs. In addition, OPIC has actively participated in the activities of various U.S. Government, host-government, multilateral, and business organizations interested in ASEAN affairs that will contribute to fulfilling our mission.

OPIC has sponsored various successful seminars for U.S. investors interested in ASEAN and other Southeast Asian countries. In fiscal year 1980 OPIC sponsored a seminar on the international hardwood industry that highlighted, in part, investment opportunities in the Southeast Asian countries of Indonesia, Malaysia and Papua New Guinea. Also, in fiscal year 1981, we sponsored a seminar on the international construction materials and equipment manufacturing industry with Indonesia as one of the focal countries. Of particular importance, however, was the OPIC seminar held in April of this year centering on potential investment opportunities in the food production and processing industry in the ASEAN region. This seminar reflected OPIC's newly developed promotional approach, focusing as it did on a high priority industry and on those countries having considerable business and developmental potential.

During the course of this seminar, numerous investment opportunities for U.S. firms in food production and processing were identified, primarily in Indonesia, Malaysia, the Philippines, and Thailand. The seminar introduced some 40 U.S. firms to these opportunities through presentations of, and consultations with, experts from the U.S. private and public sectors, and the ASEAN governments. The program focused particularly on fruit and vegetable processing, animal feed production, livestock and dairy operations, and fish and seafood processing. The investment climates in the specific countries, as well as the region in general, were reviewed from economic, technical, political, and financial perspectives. The seminar revealed that most of the investment interests of the U.S. firms were in Indonesia and Malaysia and that the areas of greatest interest were livestock operations, fishing and canning, and animal feed production.

OPIC will also be sponsoring a series of Investment Missions to the ASEAN region in the next 18 months. The first mission is scheduled for Thailand from July 10 through 17 of this year. An investment mission gives potential investors the opportunity to visit a particular country, meet with business leaders and government officials, explore investment opportunities in detail, and visit investment sites. During the course of the mission, the OPIC staff will ensure that each participant has many opportunities to attend pre-arranged meetings with local business counterparts who have specific ventures in mind. You might say that we function as match-makers between United States and host country businessmen in search of partners.

The mission to Thailand and the others planned for the ASEAN region should be even more fruitful than the highly acclaimed 1978 investment mission to the ASEAN region. We plan to establish target areas and projects based in part on the information provided by Thai investors and the Thai Government prior to the trip. Moreover, those participating in the mission will be selected based on their potential to undertake an investment in Thailand. Mission participants will acquire a better understanding of the investment climate in Thailand and of specific investment opportunities through investment briefings, individual business appointments, and meetings with Thai officials. The mission will be co-chaired by L. Ebersole Gaines, Executive Vice President of OPIC, and Herbert L. Lucas, Jr., former President of Carnation International—a longstanding OPIC client with current operations in Thailand.

Another very important means by which OPIC provides assistance to U.S. firms doing business abroad is through partially funding feasibility studies. Feasibility studies are exceedingly important both to stimulating interest in viable overseas investments and in promoting trade. A number of developed countries, such as Japan, are increasingly using this form of official assistance to improve access into the ASEAN region for their businessmen. Not only do feasibility studies support home-country businesses in taking advantage of investment opportunities, but these studies also establish criteria generally favoring exports (procurement and production inputs associated with the investment) of the nation providing the assistance. Although in the past, OPIC activity related to feasibility studies for the ASEAN countries was limited—as it has been elsewhere—we anticipate the expansion of this OPIC service in the Southeast Asian region. OPIC will be endeavoring in the future to increase its activities in this vital area.

One of our more innovative steps to promote U.S. investment and the positive developmental impact on the ASEAN countries is a management training program in the technology transfer area, recently supported by an OPIC grant together with contributions from private sector sources. As you know, under the provisions of Section 234(e) of OPIC's statute, the Corporation is authorized to support special training programs and to facilitate the technology transfer process. In March of this year, OPIC entered into an agreement with the Fund for Multinational Management Education (FMME), a non-profit organization, to establish a self-sustaining training program in the acquisition, use, and management of U.S. technology in each of the five ASEAN nations. The genesis of this program was the third ASEAN–U.S. dialogue conducted a few years ago in Manila. The ASEAN nations made clear at that time that they were searching for alternatives to the Japanese and European technologies that are predominant in the area. Under FMME auspices courses will be offered twice a year through local managerial institutions. As a result, each year approximately 40 to 50 upper and upper-middle management executives per country will become well equipped to plan, purchase, install and manage U.S. technology for their company's opera-

tions. We are very proud of the unique role that OPIC played in bringing this project into being.

There will be two beneficiaries of the OPIC-supported FMME program. First, the ASEAN nations will benefit as they will now have alternatives to Japanese and European technologies. In addition, we expect that increased competition in this market will lower costs to the ASEAN consumer. Moreover, to the extent that new technology becomes more available to ASEAN firms, we anticipate that the development process will be stimulated. The second beneficiary will be the U.S. firms that supply the technology. Many small U.S. suppliers of technology simply cannot get out to this region in order to demonstrate and sell their products. Teaching ASEAN company representatives how to access smaller U.S. technology suppliers should go a long way to helping to resolve this problem and help the U.S. trade balance at the same time.

I have discussed our assistance to FMME in some detail because I know that the Subcommittee is interested in what new actions the U.S. Government might fruitfully consider to promote U.S. commercial interests in Southeast Asia. Although very small, I think that the FMME project exemplifies what the USG might consider doing on a grander scale—that is, provide training to ASEAN businessmen in U.S. technology management. U.S. industry is justifiably reknown in many sectors for its management expertise and technological innovation and the demand for these capabilities is potentially very great in the ASEAN countries. I believe that Japanese and Western European competitors have been very active in this training area for the technologies of their companies. This challenge is certainly far greater than OPIC alone can address. While OPIC will be making a small contribution to meeting this challenge, I feel that this is an area that merits exploration both within the government and in the private sector in order to discover the approach best suited to our national needs.

Finally, I would like to conclude my remarks on OPIC efforts to further U.S. investment in Southeast Asia on one other area of activity. Concommitant to our objective of furthering development in this region is the need to continue OPIC's participation in various public and private sector activities associated with Southeast Asia affairs. For example, L. Ebersole Gaines and I were pleased to attend and formally address the ASEAN-U.S. Business Council meeting in Kuala Lumpur this year. More recently, we played an active role in the fourth ASEAN-U.S. Dialogue conducted at the State Department. We came away from both meetings with a better understanding of the ASEAN nations' concerns. I am sure that the ASEAN participants came away with a much better understanding of OPIC's unique role and of the mutual benefits of doing business with U.S. firms. Taking the knowledge that we have gained, and drawing upon the talents of the OPIC staff, we think we can do a lot more in the ASEAN region and I believe that the various programs I have outlined here underscore that belief.

FUTURE INVESTMENTS: CHALLENGES AND SOLUTIONS

The advanced developing nations, which include some of the countries of Southeast Asia, are major and growing markets for U.S. trade and investment. As a region, ASEAN is the fifth largest trading partner of the United States, having total trade of goods and services valued at $23 billion in 1981 of which U.S. exports were $9 billion. In addition, the value of U.S. direct foreign investment in the region exceeded $5 billion in 1981. In spite of our historically close economic ties with Southeast Asia and the major commercial opportunities that will be available in the future, it is essential that we are realistic in understanding that our future trade and investment relations with Southeast Asia will face challenges as well as opportunities.

I believe that there are two general areas of challenge—one potential and one very actual. First, of increasing potential importance is the imposition of trade-distorting performance requirements and other investment practices and barriers erected by host governments that disadvantage U.S. trade and investment. Second, there is a very real competitive challenge to U.S. commercial interests in Southeast Asia from Japan and other OECD countries that have developed technologies competitive with those available from U.S. firms and which tend to aggressively pursue export and investment markets. While formidable, these challenges are not insoluable problems. And they are problems for which OPIC is at least a small part of the solution. Allow me to briefly elaborate on each of these challenges.

In an effort to maximize the flow of investment into their economies on terms that are supportive of their national and economic goals, nations are increasingly exercising greater control over the terms of investment in their countries. Incentives are used to attract foreign capital and performance requirements seek to ensure that investments are geared toward promoting host country development. While yielding short-term benefits to the host country, these practices can distort the natural benefits that flow to both the host country and the U.S. investor from the free movement of capital. This constitutes a totally new type of "nontariff barrier" to investment—and potentially to trade. Consistent with our statutory mandate to review each potential project for performance requirements and to decline to support projects that would "reduce substantially the positive trade benefits likely to accrue to the United States from the investment," OPIC seeks to discourage Southeast Asian and other nations from employing such practices. Thus far in our review of the effects on U.S. trade of performance requirements imposed by countries of this region, OPIC has not yet declined its assistance to a project. We have acquired a solid base of empirical information on performance requirements that we have shared with other USG agencies. OPIC has and will continue to work with other agencies to assess the extent, nature, and effect of performance requirements and the policy position that the USG should take in light of U.S. political, economic, and commercial interests.

The most well-known challenge to U.S. commercial interests in Southeast Asia is competition from other developed countries that aggressively pursue trade and investment opportunities in that region. Often these countries have long-established commercial relations with particular Southeast Asian nations, that are difficult for the U.S. investor to supplant. In addition, businessmen within most OECD countries tend to pursue foreign commercial opportunities more aggressively—often with government-supported programs—than U.S. firms. Official export financing at below-market rates of interest, exporter insurance, loan guarantees, and mixed-credit financing are generally available on what often seems to be an unlimited basis, enabling the foreign businessman to more easily seize foreign trade and investment opportunities. While I am not advocating that our government necessarily adopt the same type of programs, I do believe it is essential that we safeguard the interests of U.S. business that may be jeopardized by unfair foreign practices. In some instances, we can do this through the GATT or the OECD; other times it requires a Government effort designed to neutralize the advantage hoped to be gained through the foreign program.

Other witnesses that have or will appear before this Committee have far greater expertise in some of these areas than I; I will leave it to them to testify on the appropriate solutions to those aspects of this complex challenge. From OPIC's perspective we have sought to keep abreast of investment insurance developments of other OECD nations, and within the limits of our legislation, we have sought to improve our programs' effectiveness. We have sought to maximize the benefits of our programs through an improved feasibility study program, innovating training grants and improved insurance coverage of licensing and leasing investments.

These two major challenges that the United States faces in Southeast Asia have the tremendous advantage of being easily identified and labeled. It must be acknowledged, however, that there are hundreds, maybe thousands, of other constraints—some real, some imaginary, some public, some private, some in the United States, some in Southeast Asian countries—that hinder and impede the commercial activities of the U.S. businessmen. From talking with scores of U.S. businessmen from both large and small firms, high technology and low technology firms, agricultural firms and electronics firms, there emerges a bewildering variety of concerns. I certainly do not wish to list all of these concerns. My purpose in mentioning them is only to observe how they conjure up the image of an economic giant of a country tied down by myriads of constraining threads.

Cutting through these constraining threads is not just a challenge to be addressed only by governments, but by the private sector as well. American industry must become more aggressive in seeking out new trade and investment opportunities in Southeast Asia. U.S. business must become more flexible in tailoring products and services to the specific needs of local markets. U.S. businessmen need to dispell some of the unnamed fears and trepidations that render them so parochial in the international marketplace. For its part, the Reagan Administration is aware of the need for modifying laws, regulations, and government procedures that excessively encumber U.S. business activities overseas. As you are

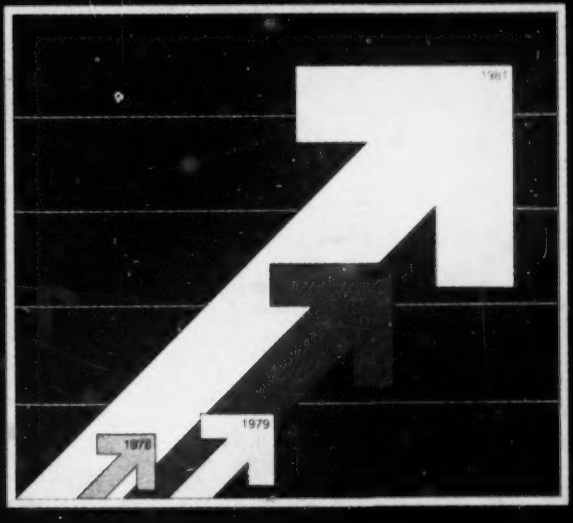
aware, the Administration has already made important strides in removing some of these constraints and has pledged to continue these efforts. For our part at OPIC, we are examining where we can reduce the burdens on investors in dealing with us and where we can improve our services to match foreign government programs.

CONCLUSION

Mr. Chairman and Members of the Committee, I have sketched what I believe to be a comprehensive overview of OPIC's activities in Southeast Asia, of which we are extremely proud. I am confident that, consistent with the Administration's emphasis on the private sector's contribution to furthering economic development in the Third World, OPIC's future role in mobilizing U.S. investments in Southeast Asia will grow. This will particularly be the case as we expand our activities into new program areas that better serve the interests of both the U.S. investor and the nations of the region. Through a concerted effort of business and government, we can ensure that the United States maintains a strong commercial presence in Southeast Asia that serves the interests of the private sector and the United States as a whole.

DEVELOPMENT REPORT FISCAL 1981

Overseas Private Investment Corporation



DEVELOPMENT REPORT FISCAL 1981

Overseas Private Investment Corporation

PREFACE

This Report is a comprehensive review of the development activities of the Overseas Private Investment Corporation (OPIC) during fiscal year 1981 and an examination of the international economic environment, the problems faced by the developing countries and the leading role which OPIC can and has played in U.S. efforts to respond to these problems. In addition to detailing the developmental effects of OPIC's activities, the Report specifically reviews how OPIC meets the development needs of the low- and middle-income developing countries. This is followed by an in-depth look at certain critical areas: energy, food and the Caribbean Basin. Finally, since OPIC's programs not only promote development in the developing countries, but benefit the U.S. economy as well, these U.S. benefits are also discussed.

This Development Report has been prepared by OPIC for the United States Congress in compliance with Section 240A of the Foreign Assistance Act of 1961, as amended. As required by the Act, the Development Report makes an assessment of the economic and social development impact and benefits of the projects supported by OPIC during fiscal year 1981. It also reviews the extent to which OPIC's operations complement or are compatible with the development assistance programs of the United States and other public and private, national and international, donors.

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I. INTRODUCTION

OPIC was created by the Foreign Assistance Act of 1969 for the purpose of facilitating the flow of private U.S. capital and skills to the friendly countries of the developing world. OPIC's programs also serve both the strategic and economic interests of the United States.

OPIC operates two main programs: it insures U.S. private investments in over 90 developing countries against certain political risks, and it finances the investigation and development of projects by U.S. investors in those countries. (See Appendix for Country and Area List.) Substantial financial reserves back OPIC's insurance and guaranty obligations; moreover, the full faith and credit of the United States of America is pledged for the full payment and performance of OPIC's commitments.

OPIC is totally self-sustaining and receives no Congressional appropriations. The operational revenues of OPIC are used to build its insurance and guaranty reserves, expand the direct loan program and promote additional small business enterprise abroad. Fiscal year 1981 marked the strongest performance in OPIC's history, with gross revenues reaching a new high of $86.7 million and net income after operating expenses totaling $76.2 million. These figures represent increases of 14 percent and 16 percent, respectively, over the previous year.

Over the past year, OPIC's operations were stimulated by a heightened awareness in the private sector of the value of OPIC's services in the uncertain economic and political environment which exists in many developing nations. By facilitating larger flows of U.S. investment to less developed countries, OPIC contributed importantly to the economic well-being of both those countries and the United States. As described below, the need for increased investment in the less developed countries has never been greater.

II. DEVELOPMENT AND THE WORLD ECONOMY

The past year witnessed the continuation of trends that had been inhibiting the growth prospects of many developing countries for several years. The problems noted in last year's Development Report—a stagnant world economy, high oil prices, inflation, and external debt—have continued to frustrate the growth prospects of many developing countries.

The slow growth of the industrialized countries in 1980 faltered even further in 1981. Collectively, the industrial economies saw their annual growth rates held to under 2 percent in 1981, after enjoying a 3.5 percent annual growth average in 1970-78. In several countries, including the United States, slow growth has given way to actual negative growth and recession. The result has been a decline in world trade, resulting in an estimated 2 percent decrease in real terms in aggregate world trade for 1981. The adverse implications for developing countries whose economies are dependent on exports to developed country markets are patent.

Despite the weakening ability of OPEC members to raise petroleum prices and the relief provided by a temporarily glutted market, the high price of imported oil remains one of the key constraints to accelerated growth for developing countries. The financing of imported oil in 1981 continued to exacerbate balance of payments problems, forcing finance ministries to concentrate their efforts on short-term foreign exchange crises rather than long-term development plans. The poorest of the developing countries have had no choice but to severely curtail oil imports, while other nations have incurred massive external debt and accepted slower growth rates by continuing to import needed oil supplies.

The implications of continued high rates of inflation for developing and developed countries alike have also become clearer over the last year. The tight monetary policies employed by the developed countries in order to control inflation have kept interest rates at record high levels and have made external financing extremely difficult for all but the most creditworthy developing countries. Inflation-fighting goals have also prevented the developed countries from pursuing expansionary fiscal policies that would in turn increase demand for developing countries' exports.

The problems that developing countries face in acquiring and servicing foreign financing remain central to any discussion of future growth prospects. Massive current account deficits since the last oil price shock have been financed in a variety of unprecedented ways—debt rescheduling and the drawing down of reserves to dangerously low levels—that cannot be sustained in the future. The composition of foreign borrowing has also changed, moving sharply from predominantly long-term to short-term commercial flows. Combined with reduced concessional lending, these developments point to ominous debt servicing problems in the near future for the developing countries that are the heaviest borrowers.

Outlook for the 80's

All the above factors will combine to make the achievement of healthy growth rates difficult for both developed and developing economies. Inflation-fighting policies in the developed countries will continue to take precedence and will dictate that expansionary fiscal policy be modest in scope and carefully paced. Slow growth will continue to be the rule, which will translate into only slowly growing world trade.

The implications of slow growth in the world economy for developing countries are quite readily apparent. First, the developed countries will continue to be forced by budget considerations to constrain levels of concessional assistance in both multilateral and bilateral forms. Second, slow growth in world trade will constrain developing country exports, preventing them from keeping pace with developing country needs for foreign exchange.

Policy Implications for Developing Countries

The governments of developing countries will have to take into account all of these factors when designing economic policy in the future. Developing countries will need to concentrate their efforts on the mobilization and efficient use of their own resources. Sound domestic economic policy will be the key to rekindled growth.

In many developing countries public sector expenditures make up the bulk of economic activity. Public sector activity in some areas can promote faster growth and equity. In other areas, however, public expenditures and government owned or -controlled enterprises have created inefficiencies and have wasted scarce resources. Pruning an overly extended public sector can free up resources for more important uses.

Market-determined price policies in such critical areas as food and energy can have a beneficial effect on developing economies. Government controlled price levels can produce surpluses when set too high, or can discourage local production when set too low. Market-determined prices eliminate the need for expensive price subsidies in the case of overly high price levels. When prices are artificially low, the removal of price controls encourages local production, thus reducing imports.

In addition, the governments of developing countries can harness the creative resources of the private sector. Private investment has the potential to play a critical development role in terms of both size and efficiency. Governments can increase the magnitude of private transfers of capital and technology through the use of judicious foreign investment policies.

Private sector financing and expertise can be crucial in replacing concessional aid and restoring growth rates battered by balance of payments constraints. The productive activities of foreign investors can earn needed foreign exchange for a

developing country through exports or can enable the country to produce locally products which were previously imported, both of which contribute to an improved balance of trade position. In the case of energy exploration and production, the balance of trade benefits can be potentially even larger and more immediate.

The importance of private sector transfers has not been lost on developing country officials. The antipathy to foreign investment that was characteristic of a decade ago has largely been replaced by a new pragmatism that is not concerned with whether or not foreign investment should be permitted, but rather with how it can be attracted and regulated to maximize its contribution to national development plans. Accordingly, many developing countries have devised elaborate investment incentive and performance requirement regulations in order to encourage and control foreign investment.

Efforts by a developing country to improve its investment climate can have positive effects for both that country and developed countries when they result in the elimination of unnecessary regulations and the promulgation of clear and consistent laws in conformance with the principles of international law. However, some investment incentives and trade-related performance requirements have the potential to distort trade and investment flows in ways that harm both developed country interests and the long-run development prospects of the developing country that has enacted them. In order for private investment to be most efficient in promoting growth, it should flow in response to bona fide, long run economic opportunities, not artifical situations created by government regulations.

The U.S. Policy Response

Given the increasingly critical problems faced by those in the process of development, the need for a new U.S. development strategy has become increasingly clear. In response to this challenge, the Reagan Administration has instituted a fundamental reformulation of U.S. development policy which recognizes that efforts by the industrialized nations to restore healthy, non-inflationary growth and efforts by the developing countries to implement sound economic policy can complement and support each other.

The recognition that the prospects for economic health and growth of both industrialized and developing countries are inextricably bound together has introduced a growing pragmatism into discussions of mutual problems. Sharp differences remain, but perspectives are undeniably closer than in the past.

At the Cancun Summit and in numerous other fora, the Reagan Administration has set forth a development agenda to face the realities of the 80's. The agenda takes as its starting point the fact that large increases in U.S. concessional aid—let alone the massive, unilateral transfer of productive assets proposed by certain developing countries in the past—are neither possible for developed countries nor good policy for promoting long-term economic development. Rather, the new agenda emphasizes the potential of the existing free market system to promote efficient and rapid growth for all participants. The Administration recognizes that the rational allocation of resources is best served by allowing private investment, both local and foreign, to flow to those opportunities where the incentives of the marketplace are the highest.

This new development agenda proposes that new efforts be made to liberalize trade, develop energy and food resources, and establish an improved international investment climate. Progress in these areas will lead to sustained, balanced growth for developed and developing countries alike.

The overriding theme throughout the Administration's development agenda is increased reliance on the private sector. It is generally accepted that the decade of the 1980's will be a period of capital scarcity for both industrialized and developing countries. As developing countries attempt to bolster growth rates, capital shortages will become increasingly serious. Concessional capital flows will be pinched the hardest by the realities of slow growth in the industrialized economies and tight world financial markets. Private sector investment will become an increasingly critical source of financing and technology. Moreover, the management expertise and access to global marketing systems that such investment brings is often of equal importance.

OPIC's Special Role

OPIC's programs will, of course, play a central role in a U.S. development policy that emphasizes the private sector. As the senior U.S. Government entity charged with promoting private investment, OPIC has had over a decade of experience in mobilizing private capital and skills for the economic and social development of developing countries. Its insurance and finance services and its special programs have track records of proven success.

Recent events in Afghanistan, Iran and Nicaragua have impressed upon private investors the importance of evaluating political risk factors in their investment decisions. The availability of political risk insurance can be of critical importance in the decision to invest in a country where the perception of risk is substantial, or to undertake a project in a sector such as energy or minerals where the initial investment is large. Moreover, the problems of the convertibility of local earnings have been exacerbated by the continuing balance of payments problems of non-oil-exporting developing countries. The availability of convertibility insurance can be a crucial factor for an investor whose project will require the repatriation of foreign receipts.

OPIC's financial services have successfully mobilized and complemented traditional sources of long-term financing in the developing countries. The provision of loan

THE DIRECT INVESTMENT FUND

The primary purpose of OPIC's Direct Investment Fund loan program is to encourage and finance investment projects involving U.S. small businesses that contribute to the economic development of less developed countries. Such projects can promote development in a variety of ways. Most notably, they can foster expansion of the host country's small-scale industries, as well as provide appropriate technology and managerial expertise to local entrepreneurs.

In the last fiscal year OPIC committed $10 million in loans to help finance the establishment of 14 small- and medium-sized businesses. These loans mobilized an additional $12 million of local investment capital which may otherwise have lain dormant or been invested abroad, thus not contributing to the countries' economic development. The funds to be invested in these 14 projects will also create employment for 43 persons per million dollars of investment, an exceptionally high ratio. In addition, 10 of these projects will be located in less developed countries whose population is less than five million and hence were not especially attractive to major U.S. corporations as locales for their investments.

OPIC's fiscal year 1981 direct investment fund projects fulfilled a wide variety of developing country needs. In the Sudan, for example, a direct investment fund loan will be used to develop new cargo handling facilities and specialized trucking services, both at Port Sudan and inland. Transport problems have been a major constraint to Sudan's economic growth, impinging particularly on petroleum exploration and development projects. This project directly meets that urgent infrastructure need, while at the same time generating $3 million in new government revenues and $6.56 million in foreign exchange earnings over its first five years of operation.

Another loan to a U.S.-owned distributorship of refrigeration equipment in Peru will allow the investor to enlarge warehousing and repair facilities and add two new lines of equipment for sale. The project supports the Peruvian fishing industry through its equipment sales and services. Peru has been striving to add fresh fish production to its traditional production of fishmeal. Modern refrigeration equipment will be indispensable to the achievement of this goal.

An investment in St. Vincent will establish a plant to manufacture security devices used in the cable television industry. The plant will employ 136 laborers or 1.4 percent of the estimated unemployed work force on the island. These laborers, who have no experience in electronic assembly, will receive on-the-job training. Export of the security devices will generate approximately $4 million in foreign exchange over the first five years of project operation.

guaranties can convince lenders to extend financing in countries where internal exposure limits have been reached, or where certain forms of political risk are present. OPIC participation can thus help leverage more funds, increasing capital flows to promising investment opportunities. In addition, loans from OPIC's Direct Investment Fund (DIF) can be channelled to smaller investors and innovative projects that might normally be shut out of international credit markets. The medium- to long-term structure of these DIF loans can allow investors to take on more easily available short-term commercial credit, increasing overall capital flows. It also allows for the extension of pay-back periods over a longer period of time, permitting projects to be more developmental in design.

The wide range of special services OPIC offers to U.S. businesses and developing countries was expanded further in fiscal year 1981. Major, new emphasis was placed on bringing U.S. investors in touch with opportunities in the developing world through investment missions and seminars. OPIC also offers assistance for feasibility studies and pilot projects after investment opportunities have been identified. Its expertise in bringing together the various components of a foreign investment project can ensure success in both commercial and developmental terms.

OPIC also supports activities that do not involve specific investment projects. For example, OPIC has extended assistance for the training of foreign investment officers at the United Nations Industrial Development Organization (UNIDO) in New York. OPIC has also funded grants for private voluntary organizations that disperse seed loans to new small businesses. Other grants have supported vocational and technical training in developing countries. Renewed and expanded grant activities in the coming year will help OPIC serve one of its most important goals: the encouragement of entrepreneurship and a healthy private sector in developing countries.

The key to continued growth and development in the 1980's will be efficiency. This is precisely the most important virtue of the private sector. If the developing countries are to make the structural adjustments needed in their economies for renewed growth, the use of private investment will be indispensable. The strength of all of OPIC's programs is that they complement, rather than supplant, private market mechanisms. By removing some of the political risks and providing supporting services OPIC can induce increased flows of private capital and technology. Most importantly, OPIC does this in an economic manner, allowing investment to flow to real opportunities. In so doing, the need for special incentives is reduced.

III. THE DEVELOPMENT IMPACT OF OPIC's FY 1981 ACTIVITIES

In fiscal year 1981, OPIC made commitments to insure or finance 113 projects in 37 countries. Fifty-five of these projects are in manufacturing, 19 in banking and finance, 12 in agribusiness, 12 in services, 10 in construction, and 5 in minerals or energy **(Figure 1).** Forty-five projects, or 40 percent, are located in countries with a per capita GNP of $520 or less computed in 1975 dollars.* There were 33 projects assisted in Latin America, accounting for 29.2 percent of the total, **(Figure 2),** compared to 17.9 percent the previous year. All but three of these projects were located in the Caribbean Basin, helping to support the Reagan Administration's initiative in this critical area. The second largest concentration of projects was located in the Near East (33), followed by East Asia (30), Africa (11) and South Asia (6).

Total investment in the 113 OPIC-supported projects is estimated at $4.5 billion. U.S. investors will supply 41 percent of this capital, or $1.9 billion. Host country investment will total $2.06 billion, third country participation $559 million, and multilateral lending institutions will supply an estimated $62 million **(Figure 3).** Local ownership will be involved in 62 of the 113 projects; in 44 cases these local joint venture partners will own 50 percent or more of the enterprises. Moreover, under its mandate from Congress, OPIC is continuing its efforts to encourage small business entry into overseas markets. Some 30 percent of the projects assisted in fiscal year 1981 involved U.S. small businesses and cooperatives **(Figure 4).**

During their first five years of operation, these projects are expected to directly create some 20,600 new jobs in the developing nations, of which 17 percent will be management/professional positions. These

**OPIC is directed in its statute to give preferential assistance to projects in the least developed countries. Under OPIC's 1981 reauthorization legislation the term "least developed" has been modified to include countries with a per capita GNP of $680 or less in 1979 dollars.*

Figure 1
FY 1981 PROJECTS BY INDUSTRY

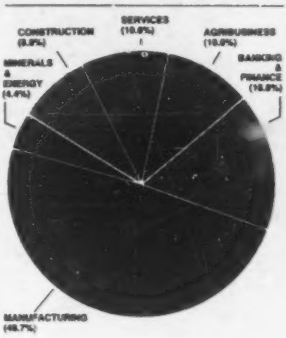


Figure 2
FY 1981 PROJECTS BY REGION

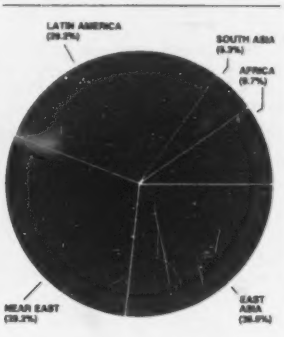
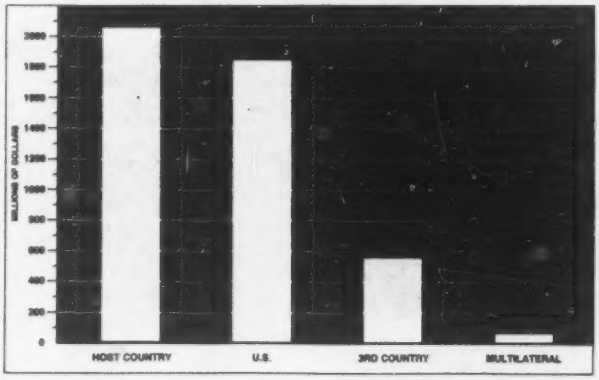


Figure 3
PROJECT INVESTMENT SOURCES FOR FY 1981



projects also will create thousands of peripheral job opportunities because they will increase the need for local goods and services. Approximately $915 million of the original investment funds will be spent locally and an additional $92 million spent in other less developed countries.

The net effect of these projects on the host countries' balance of payments will be decidedly positive. While average annual production-related imports will amount to $2.28 billion and capital outflows will be $307 million, the projects will allow the host countries to replace an annual average of $3.12 billion in imports and will generate $657 million in export earnings, thus allowing a net foreign exchange savings of $1.20 billion annually during their first five years of operation. In addition, the average annual net income from the taxes and duties paid to host countries will amount to $349 million during the same period.

The record-setting developmental benefits in fiscal year 1981 are a fitting culmination to a period of rapid

Figure 4
FY 1981 PROJECTS INVOLVING INVESTMENT BY SMALL BUSINESSES & COOPERATIVES

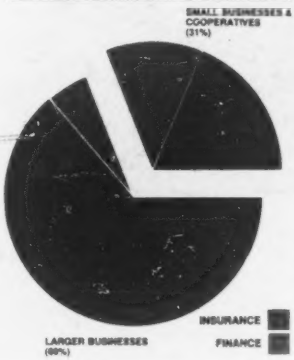


Figure 5
COMPARISON OF INVESTMENT IN OPIC-ASSISTED PROJECTS, FY 1978-81

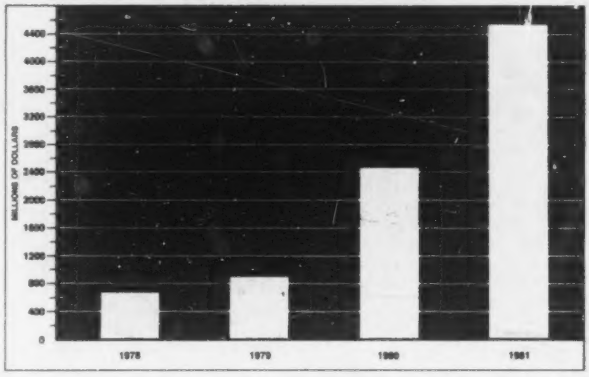
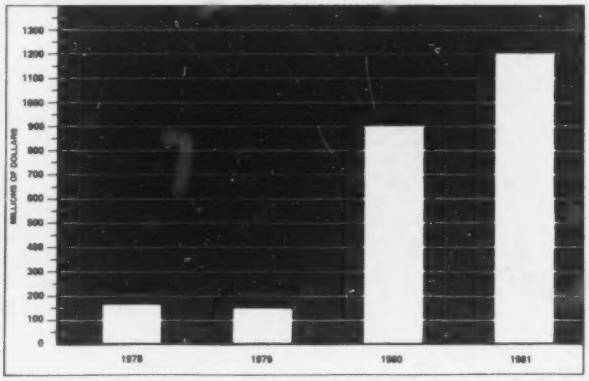


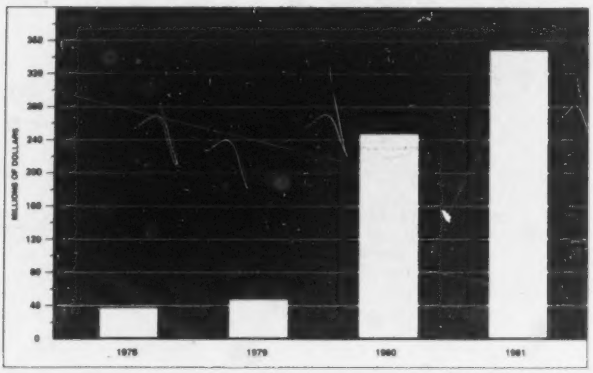
Figure 6
COMPARISON OF NET FOREIGN EXCHANGE IMPACT* OF PROJECTS ASSISTED BY OPIC, FY 1978-81



*Average annual host developing country impact during the first five years of project operations.

growth in OPIC's activities since the previous reauthorization legislation was passed in 1978. The cumulative five year host country developmental effects of projects assisted by OPIC between the 1978 and 1981 reauthorizations are shown in Table I. The amount of investment facilitated by OPIC rose sixfold during the 1978-81 period, from $665 million in 1978 to $4.5 billion in 1981 **(Figure 5).** The developmental benefits of OPIC-assisted projects also exhibited a strong upward trend during the period. The annual foreign exchange generated in the host developing countries by projects assisted in 1981 was 7.4 times as great as for projects assisted in 1978 **(Figure 6),** while host government revenues were 9.6 times the 1978 amount **(Figure 7).**

Figure 7
COMPARISON OF NET GOVERNMENT REVENUES* ACCRUING FROM PROJECTS ASSISTED BY OPIC, FY 1978-81



*Average annual fiscal impact in the host developing country during the first five years of project operations.

TABLE I

Estimated Five Year Developmental Effects of OPIC-Assisted Projects for FY 1978-81

Number of Projects Assisted:

Agribusiness	49
Manufacturing	172
Services and Tourism	117
Construction	34
Minerals and Energy	25
Total	398

Source of Project Investment ($ millions):

U.S.A.	$3,585
Host Country	2,879
Third Country	1,963
Multilateral Institutions	132
Total	$8,559

Annual Foreign Exchange Earnings and Savings to Host Country ($ millions):

Imports Replaced	$4,260
Exports Generated	2,163
Total A	$6,423
Project Imports	$3,179
Capital Outflows	837
Total B	$4,016
Net Foreign Exchange Benefit (A less B)	$2,407

Net Annual Taxes, Revenues and Duties Paid to Host Government ($ millions): $679

Local Employment Generated:

Technical and Managerial	16,420
Skilled and Unskilled	57,058
Total	73,478

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IV. MEETING THE DEVELOPMENT NEEDS OF THE LOW- AND MIDDLE-INCOME DEVELOPING COUNTRIES

While developing countries face many common problems—unemployment, poor infrastructure and capital scarcity, for example—they are as diverse from an economic development standpoint as they are in the forms of economic and political organization they employ. In attempting to come to grips with the diversity of developing countries and their problems, development institutions have found it useful to distinguish between groups of countries on the basis of per capita income level. While this is admittedly only a rough indicator of a country's level of development, it still helps to indicate where scarce resources should be directed to maximize their benefit.

The lowest-income developing countries desperately require help in establishing the rudiments of a productive economy. Efforts to meet basic human needs for food, employment and health care need to be undertaken. The economic infrastructure—transportation networks, electricity, water supply—is often poor or non-existent and in need of extensive investment. Improvements in these areas can increase the productivity of available human and physical resources and establish the necessary preconditions for further development.

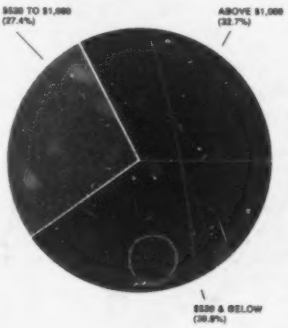
On the other hand, many middle- and higher-income developing countries have already developed small but rapidly growing industrial sectors. In order to maintain growth, they must improve their external debt management by reducing energy and food imports and increasing and diversifying exports. Only then will continued private international financing be available for future development efforts.

OPIC's 1981 insurance and finance activities dealt directly with the diverse priorities of low- and middle-income developing countries.

OPIC Projects in Low-Income Developing Countries

In the low-income developing countries—defined as having an average per capita GNP of less than $520 in 1975 dollars—OPIC insured or financed 45 projects in 1981. This number represents 40 percent of the projects for the year **(Figure 8).** Total investment in these projects from all sources will surpass $850 million. These 45 OPIC-financed or -insured projects will assist these nations to address a variety of their development problems, including unemployment and underemployment, provision of health care, infrastructure needs, technology transfer, and a stable tax base.

Figure 8
PROJECTS ASSISTED IN FY 1981 BY PER CAPITA INCOME LEVEL



1. Unemployment and Underemployment. Labor remains the most plentiful resource of nearly all the low-income developing countries. The available unemployment figures, while discouraging in themselves (averaging 30 percent among the Caribbean islands, for example), grossly underestimate the true magnitude of the problem. If workers are underemployed, that is, employed in activities that contribute very little in terms of real productivity, this underemployment must also be taken into account when considering the country's total labor situation.

Foreign investment in labor-intensive activities can contribute the jobs and basic training which these countries need to meet their employment problems and improve the productivity of their labor forces. A variety of the projects that OPIC financed or insured in 1981 were highly labor-intensive. For example, OPIC provided insurance for Owens-Illinois, Inc., to construct a glass container manufacturing facility in Egypt that will employ 470 Egyptians in both managerial and labor positions. Under its technical assistance agreement, Owens-Illinois will provide ongoing employee training in the areas of manufacturing, merchandising, accounting and management. The facility will also induce increased employment in other areas of the economy through its large procurements of locally-produced soda ash, lime and silica sand.

2. Adequate Health Care. Human services such as health care are usually among the first governmental programs to suffer in times of extreme budgetary constraint. Imported drugs and pharmaceutical supplies often account for 20 to 40 percent of the health care budgets of the poorest developing countries. OPIC assisted three projects in fiscal year 1981 for the production of pharmaceutical products in Pakistan, Indonesia and Kenya. The Merck, Sharp and Dohme project in Pakistan is an expansion of an existing plant that will generate an additional $45.3 million in foreign exchange savings over the next five years as local production replaces imports. The Richardson-Vicks Inc. project in Kenya and the Abbott Laboratories project in Indonesia will also allow those countries to replace expensive imports with locally manufactured products. Projects such as these can do much to remove the foreign exchange constraint on the provision of basic health care in low-income developing countries.

3. Infrastructure. The lack of a basic economic infrastructure, which is endemic to most of the low-income developing countries, discour-

LETTER OF CREDIT INSURANCE PROGRAMS

Foreign governments, particularly those in the Middle East, often require construction and service contractors to provide bid, performance and advance payment guaranties in the form of unconditional, irrevocable stand-by letters of credit instead of the conditional payment bonds offered by surety companies that are traditionally used in the United States. This requirement and the possibility it creates of losses due to an arbitrary drawdown inhibit U.S. firms from submitting competitive bids. This results not only in the loss of business for the U.S. firm but also in higher costs on these projects for the developing countries. OPIC's special program to insure contractors against loss due to arbitrary drawings of these letters of credit has been eminently successful. This coverage is also available to U.S. exporters, who may be required to post similar guaranties.

The availability of this coverage allows American firms to bid more competitively on foreign construction and service contracts and fosters the recycling of U.S. dollars. In fiscal year 1981, OPIC provided letter-of-credit insurance to 25 U.S. companies in connection with 27 projects, eight of which involved small-sized businesses. Guaranties posted by two small-sized companies which OPIC insured involve contracts valued at $1.4 million to provide consulting services for dam construction in Thailand and valued at $4.4 million to prepare environmental studies. Blount Incorporated was insured against an arbitrary drawing on a performance letter of credit it was required to post upon being awarded a $1.7 billion contract involving the construction of university facilities in Saudi Arabia. General Electric was similarly insured with respect to a $220 million project to design and construct an electric power plant.

Total expenditures for the 27 projects will be $2.5 billion, $90.6 million of which is expected to be used to purchase U.S. machinery and equipment in addition to the contract fees which are to be paid to the U.S. companies. It is estimated that more than 15,500 man-years of U.S. employment will be created by construction with the production of goods, supply and equipment to be used for the projects. Also, U.S. companies will be the most likely recipients of ongoing maintenance service contracts and orders for spare and replacement parts in the future.

ages both local and foreign investment. A number of OPIC-supported projects in 1981 directly address infrastructure needs. Armco, Inc., for example, is building a plant in Zaire that will enable that country to manufacture rather than import corrugated steel drainage pipe for its road system. The project output will both contribute to infrastructure development and save foreign exchange for a country whose foreign currency reserve situation is critical. In a similar manner, the Phelps Dodge project in Honduras will manufacture copper and aluminum electrical cable to meet a growing demand that has also run up against the foreign exchange constraint. Local production will benefit the electrical power and communications networks.

4. Technology Transfer. Another set of problems for many developing countries relates to technology transfer. The poorer developing countries have neither the expertise nor the foreign exchange to "unbundle" the package of technology, management, and marketing skills that comprise many investment projects. In addition, some developing countries demand productive technologies that are appropriate for neither the factor endowments of the country nor the size of the market likely to be served.

Judicious foreign investment can overcome many of these difficulties. The Metal Fabricators of Zambia Ltd. project is an outstanding example. Copper is Zambia's most important natural resource and the basic input for the country's most active manufacturing sector. Zambia has sought to avoid exclusive reliance on raw material exports by undertaking some further processing of copper locally. This project involves the installation and operation of a continuous casting copper rod mill utilizing an improved technology developed by Outokumpu Oy of Finland. The new continuous casting technology will allow Metal Fabricators to use a lower cost copper in cathode form as a production input. Cost savings will

allow exports to grow and will benefit local manufacturers involved with further processing of the rods.

5. Reliable Revenue Base. Many governments in the poorest developing countries are also dependent on small or unreliable revenue sources, due to either the absolute size of the tax base or the unreliability of the collection system. Foreign investments can provide dependable, significant additions to these revenues. The American President Lines project in the Philippines, for example, will provide the Philippine Government with $480,000 annually in new tax income. The project, which involves the installation and operation of loading cranes for the port of Manila, complements a World Bank project for the upgrading of port facilities in the Philippines.

OPIC Projects in Middle-Income Developing Countries

OPIC's activities in middle-income developing countries were also substantial in 1981. Sixty-eight projects were insured or financed, representing $3.7 billion in total investment. The majority of the projects responded to the two most pressing needs of the middle income countries: the diversification and stimulation of exports and the reduction of food and energy imports.

1. Diversification and Stimulation of Exports. Exports earn the foreign exchange necessary for the import of capital goods and energy often needed by nascent industries. Many developing countries rely on a few key commodities for their export earnings. Their development plans can thus become extremely vulnerable to fluctuations in commodity prices and declining terms of trade. Diversification of exports helps stabilize and increase foreign exchange earnings. Further, since export diversification is one of the key indices that the international financial community examines in considering loans to developing countries, progress in this area pays off in increased access to credit.

OPIC's 1981 projects will generate export earnings of $657 million annually for project countries. In Costa Rica, for example, a project established by A.B.A. Industries will produce special order, precision metal machine parts for export. The Fabritek La Romana project in the Dominican Republic, which is partially financed by OPIC, will produce cotton gauze surgical sponges for export. Peru will gain over $10 million in net foreign exchange earnings annually from the sale of a high protein food additive that will be produced from fresh fish by the Concentrados Marinos Bayovar project.

2. Reduction of Food and Energy Imports. In trying to manage external debt and maintain high growth rates, middle-income developing countries often find themselves faced with difficult import policy choices. Bills for food and energy imports can be a heavy drain on export earnings and foreign exchange reserves. Moreover, demand for imports of food and energy are not as easily "compressed" as demand for consumer goods in periods of fiscal austerity. Domestic production can go a long way toward easing the pressure.

Jamaica offers a good example. The scarcity of pork and beef in Jamaica makes poultry one of the country's primary sources of protein. Consumption levels have been restrained, however, by the necessity of importing either the poultry itself or the fertile broiler eggs for local hatchery operations. The OPIC-financed Jamaica Broilers, Ltd. project involves the start-up of a breeder farm operation that will increase the productivity of the local poultry industry and reduce fertile broiler egg imports. Both local nutrition and the Jamaican trade balance will benefit.

While many middle-income countries have experienced rapid growth, there remain large gaps in the complex web of input and output needs between various industries. These gaps are usually filled by expensive imports and can be potent drags on related industries and raise prices throughout an economy. The Air Products and Chemicals Inc. project in Korea demonstrates how foreign investment can fill one of these gaps. A cryogenic air separation unit for the production of industrial gases that uses rubber and plastic scrap as a raw material will be constructed. The recycling technology used will allow the foreign enterprise to pass on savings to customers in the electronic, metal producing, rubber, plastic and food industries. Earnings and productivity in these other sectors will improve, and foreign exchange previously used for industrial gas imports will become available for other imports.

V. SPECIAL DEVELOPMENT INITIATIVES

In response to the urgent need of developing countries for improved domestic sources of energy and food, OPIC has been involved with a number of projects which deal directly with these two critical sectors. OPIC has also undertaken projects which strengthen American foreign policy. During the last half of the fiscal year, OPIC's assistance efforts directed toward the Caribbean Basin were stepped up in support of the Administration's recognition of the region's strategic importance to the United States. Investment assistance, investment missions and industry seminars represent additional key areas where OPIC has made special efforts. This section of the report highlights OPIC's activities in these areas and demonstrates how OPIC has helped to involve private enterprise in the U.S. response to urgent development and policy needs.

Energy

The quintupling of oil prices (in real terms) over the last decade has created severe problems for the developing countries. In several developing countries such as Brazil, Turkey and India, over 50 percent of export earnings is absorbed by payments for oil imports. Moreover, many of these countries are "captives" of imported oil because they lack the infrastructure, such as coal handling and burning facilities, to switch to lower cost alternative fuels.

The less developed countries have had to increase their international borrowing in large part to pay for more expensive oil imports. Their debt burden rose from $68 billion in 1971 to a nearly unmanageable $439 billion in 1980. Much of this debt burden has been concentrated in developing countries like Brazil and Turkey where small but rapidly growing industrial sectors are already in place. The poorest developing countries have simply not been able to find financing, and have had to drastically reduce imports of oil.

A number of indirect effects have compounded the problem. As households and small industries substitute firewood for oil, as much as forty percent of the developing world's timber reserves may be depleted. Deforestation reduces the amount of arable land, necessitating increased imports of food.

Furthermore, the dramatic increase in oil prices has contributed to economic stagnation and inflation in the developed countries. The first effect has resulted in decreased demand for exports from developing countries, exports that are needed to earn crucial foreign exchange. The second effect, inflation, has led to restrictive monetary policies and unusually high interest rates. High interest rates have in turn placed an increased debt servicing burden on the developing countries.

Part of the solution to the severe problems brought on by higher oil prices is to increase energy supplies. Constituting one of the least explored areas, energy-importing developing countries represent one of the best hopes for finding new supplies of oil and gas. Yet these countries lack the technical expertise and capital required to develop new supplies.* Hence, there must be substantial foreign investment and technical assistance. To help accomplish this goal, OPIC initiated a special energy program. Since its inception five years ago, the program has resulted in assistance for 10 oil and gas exploration, development and production projects in eight non-OPEC developing countries. These projects have involved over $1 billion in total investments and are expected to generate average annual foreign exchange earnings of $749 million.

In fiscal year 1981 OPIC assisted a Union Oil Company investment in Thailand involving development and production of natural gas from an offshore field. Investment of $35 million will be used to construct drilling and production platforms and to drill 40 wells. The gas will be transported by an underwater pipeline, to be partially funded by the World Bank, to a site near Bangkok, where it will be used to power two electric generation facilities. The first year's production of 150 million cubic feet will represent 100 percent of Thailand's gas production and approximately 25 percent of its current petroleum imports. By the fourth year of operation, production will increase to 250 million cubic feet but will account for a smaller market portion as additional gas fields come on stream. Projected gas production will result in a substitution for imports amounting to $341 million annually and after remittance of profits, loan repayments and fees of approximately $64 million, will produce net foreign exchange savings of approximately $270 million annually.

The Dominican Republic imports all its petroleum requirements. Last year, its petroleum expenditures reached $450 million, corresponding to approximately half of its total export earnings. An OPIC-assisted project there will involve oil and gas exploration, development and production in the promising San Juan Basin. While the quantities of hydrocarbons that might be discovered cannot be predicted, by the fifth year of production, the project possibly could supply about half of Dominican petroleum needs. Extensive on-the-job and classroom training will be provided for the 80 local nationals employed in the exploration and production stages of the project to bring their skill level up to that of similar employees in the industry. In addition, scholarships will be granted to deserving employees for specialized studies abroad, and courses will be provided for the advancement of Dominican workers, technicians and professionals when necessary.

These projects will do more than just provide direct benefits to the host countries. By increasing world supplies of energy, they will have a moderating influence on oil prices, which will benefit other developing countries as well as the United States.

*The World Bank estimates that energy development programs in the oil-importing developing countries will require capital expenditures of around $40 billion a year between 1982 and 1985 including about $5 billion a year for oil and gas.

Food Production and Food Processing

Developing countries increasingly are realizing the importance of a large, healthy and growing agricultural sector to their long-term economic development. The "short-cut" policies of the past—such as attempts to industrialize behind overvalued exchange rates—discouraged the expansion of the agricultural sector. The results were a lack of diversification in foreign-exchange-earning cash crops and increased food imports.

The external shocks of the seventies and the resulting need for structural adjustment have caused many developing countries to reform their internal price policies for agricultural products and exchange rates. A large, diversified agricultural sector is now increasingly viewed as an efficient "buffer," helping to insulate an economy from external shocks, and as an important source of indigenous income, generating the savings necessary for investment.

OPIC places a high priority upon food production and processing, insuring or financing many agricultural projects over the last year. An OPIC project in the Bayovar region of Peru, for example, involves the construction of a fresh fish processing plant and installation of custom-designed equipment. The plant will produce fish oil for the domestic market, defatted fish meal for the animal feed export market, and a new U.S. Federal Drug Administration-approved fish protein isolate for local consumption and export as a high-protein food ingredient. This project will provide jobs in a region of high unemployment and will have a significant impact upon the development of the fishing industry in the Bayovar region.

An OPIC-financed hybrid flower and vegetable seed production and processing facility in Kenya will employ more than 80 Kenyans at all levels when it reaches full capacity. All the facility's production will be exported for sale to farmers and seed companies in the United States and Europe. The project complements recent Kenyan efforts to improve productivity in the agricultural sector.

The Terre Aride project in Haiti is in direct support of the Haitian Government's effort to diversify cash crop production. The project involves the establishment of a jojoba bean plantation that will employ more than 500 Haitians during the harvesting periods. Jojoba beans are an experimental new cash crop for Haiti, and, if successful, could lead to further investments for oil extraction and processing.

In Egypt, International Multifoods Corporation is investing in the manufacture and sale of pasta and European-style bread products. The project will service approximately one million Egyptians with previously unavailable quality foodstuffs. In addition to providing direct employment for 1,264 Egyptians, the project will indirectly increase employment and investment in other areas of the economy by stimulating related activities such as establishment of a yeast plant to manufacture yeast for mechanical bakeries, construction of roads to the plant site and construction of railroad siding. Training programs are being developed for Egyptian technicians and operators at facilities in Switzerland, Germany and Italy. A program of on-the-job skills training will also be implemented by project technicians. It is estimated that 15 percent of production will be exported to other Middle Eastern countries, which, in combination with import substitution, will help Egypt realize foreign exchange savings of almost $2,200,000 annually.

Caribbean Basin

The Reagan Administration has assigned to the Caribbean Basin a central role in its global development strategy, based on the region's economic and geopolitical importance to the United States and because of the realization that the widespread poverty persisting in much of the region must be alleviated. Among the most serious economic problems of the small island-states of the Caribbean and the countries of Central America are high rates of inflation, widespread unemployment, and heavy dependence on imported food and energy. The small size of many of the Caribbean Basin countries' economies means that these nations are often especially dependent on the international economic system and are disproportionately affected by fluctuations in the health of the world economy. Frequent changes of government and government policies in many of these countries further contribute to their development difficulties.

OPIC has played, and will continue to play, a special role in the Administration's Caribbean priorities. In fiscal year 1981, OPIC assisted 30 projects located in 11 Caribbean Basin countries, including 9 in the Dominican Republic, 6 in Haiti and 3 in Honduras. Seventeen of these were new projects and 13 were expansions of existing projects. These projects increased employment, expanded export capacity, developed local food and energy sources, and improved agricultural productivity. They represent nearly $460 million worth of new investment in the region and will employ 6,200 workers by their fifth year of operation. The projects will also generate net foreign exchange savings of $129.8 million annually for the host countries.

Jamaica has received special attention within the overall Caribbean Basin effort. OPIC-sponsored projects support the Jamaican Government's commitment to the important role the private sector must play in the development process. During fiscal year 1981, OPIC made commitments to assist two projects in Jamaica which together had a total investment value of $134 million and laid the groundwork for many additional projects for fiscal year 1982. To introduce members of the U.S. business community to Jamaica, OPIC conducted an investment mission to the country in November 1981. The mission brought 24 U.S. business executives to Jamaica for five days of discussions on the investment climate

and potential investment opportunities. As a result of this mission, 12 business or investment transactions have either been consummated or are under active negotiation as of this writing.

The Alumina Partners of Jamaica project demonstrates how foreign investment can contribute to a development program based on the growth of the private sector. This project involves a capital improvement program to open a new bauxite mine and make extensive cost-reducing modifications to an existing alumina plant. Benefits to the Jamaican economy will be twofold. First, bauxite levy revenues to the government will be sustained as the new mine is brought into production and the old mine site is phased out. Second, the increased cost effectiveness brought about by the plant improvements will render the operation less vulnerable to production cut-backs in periods of slack demand. Both Jamaican employment and revenues will thus be stabilized.

OPIC also organized an investment mission to Haiti in December 1981. With a per capita GNP of only $257, Haiti remains one of the world's poorest countries. The 10 new investments that were finalized during the mission or are under active negotiation have the potential to generate thousands of jobs in Haiti.

In fiscal year 1981 OPIC insured a $1,125,000 investment by A-T-O Inc. which will provide jobs for 429 Haitians. The plant's production of leather baseball gloves will net foreign exchange earnings of nearly $250,000 annually for the Haitian economy. Local managers and labor will be trained in plant operations and acquire new skills while earning a yearly payroll of approximately $330,000. In turn, their increased earning power will provide additional stimulation to the Haitian economy.

Building a basic transportation infrastructure is a major development priority in Guatemala, and the Guatemalan Government expects to begin a $1.5 billion national highway project in the near future. In fiscal year 1981 OPIC insured a $270,000 investment sponsored by the Tri-State Culvert Corporation which will produce metal culverts and related metal products for use in the road building effort. In addition, the new facility will provide training for approximately 40 previously unskilled local employees and will have a positive net foreign exchange impact of $165,000 a year.

Food supply, particularly meat protein, presents a serious problem for many countries, including the Dominican Republic. The destruction caused by Hurricane David in 1979 drastically reduced livestock and poultry production. This was followed by an African swine fever epidemic that devastated the traditional local pork supply. The expansion of the integrated broiler facility run by AgroTech Dominica S.A. was crucial in the attempt to counteract the expected decline of locally produced meat over the next five years. OPIC participated in this project in fiscal year 1981 by providing a $400,000 loan which will allow production to increase from 55,000 to 90,000 chickens a week. In addition to improving the local meat supply, the AgroTech facility also involves the transfer of technology to the Dominican Republic's economy, further supporting that country's development program.

Investment Encouragement Assistance

In addition to its Direct Investment Fund, OPIC also provides financial assistance in the form of loans and grants to encourage private investment. Through financial and advisory support it seeks to promote the development of human resources, skills and technology. Activities are also undertaken to stimulate capital savings and the growth of financial institutions necessary for a sound private sector.

In fiscal year 1981, OPIC committed $224,200 to help finance ten feasibility surveys by potential U.S. investors. Most of these funds will be expended to survey projects that will increase food production in the host countries or the manufacture of products customarily imported, resulting in the saving of precious foreign exchange.

Investment encouragement grants and concessional loans aggregating $385,000 were committed to two non-profit organizations, Accion International and Witherspoon International. Accion International assists local organizations in South America in providing business training and financing to micro-entrepreneurs. Witherspoon International provides equity and loan funds to U.S. small businesses and local firms in the Caribbean. The businesses assisted by Witherspoon International include a small vacation resort complex in Antigua, a dog chew manufacturing operation in Haiti and a printing business in St. Kitts.

OPIC also extended grants amounting to $123,500 under its Business Management Education and Manpower Training Program. These funds will be utilized by seven U.S. small businesses to provide education and training to local employees of their joint venture enterprises. For example, the technical capabilities of unskilled workers will be upgraded to increase the productive capacity of an enterprise to assemble electronic products and technical training will be provided to foremen and laborers in quality control procedures related to a fish processing plant. While this program is designed to contribute to the economic success of individual investment projects, it also facilitates the transfer of technology and managerial techniques to those less developed countries whose small business entrepreneurs lack such expertise.

A further example of OPIC's investment encouragement activities is its active support of an important and successful program, sponsored by the UNIDO Investment Promotion Service, which provides training to middle-level government officials of developing countries in foreign investment promotion. Since the program's inception in 1978, OPIC, as a co-financer of the program, has given

grants to UNIDO aggregating $303,000.

The New York-based program participants receive a year's on-the-job training under the guidance of UNIDO officers in preparing and implementing comprehensive investment promotion activities to encourage U.S. investment in their respective countries. They learn how to identify specific investment opportunities and develop pertinent information related to the projects for presentation to and discussion with potential U.S. investors. Projects referred to potential U.S. investors are generally eligible to receive OPIC's insurance and finance assistance.

During the three years of the program's existence, 76 government officers from 24 less developed countries have been trained as investment promotion officers. All are now serving in senior official positions either in the United States as head of investment promotion offices established here by their governments or in ministries of their respective countries which have jurisdiction over the establishment of foreign enterprises. Collectively, past participants have been responsible for inducing capital investment aggregating $46 million involving 11 investment projects, and it is estimated that these projects will create some 5,000 new jobs in the host countries. In addition, several other projects under current consideration involve investments of approximately $425 million.

The demonstrable success of the training program has justified creation of a UNIDO office in Los Angeles, scheduled to open in mid-1982. This office will be oriented toward encouraging expansion of U.S. investments in the ASEAN countries.

Investment Missions and Industry Seminars

Promoting U.S. investment in developing countries requires convincing U.S. businessmen that there are viable investment opportunities available to them and dispelling misconceptions about doing business in these countries. Often the most effective promotional tool for a potential investor is the opportunity to make a personal assessment of the investment opportunities in a developing country. OPIC's investment mission program and industry seminars are designed for this purpose. (Expenses for these missions are paid by the U.S. businesses participating).

In fiscal year 1981, OPIC organized and led three investment missions which together took 55 senior executive officers of U.S. companies to Kenya, Morocco and Papua New Guinea. These officers met with high level government officials and prospective joint venture partners from the local business communities. As a result of these missions, six letters of intent were exchanged between U.S companies and local businessmen, and nine joint venture projects are under active negotiation. Also during fiscal year 1981, the planning and recruiting was carried out for the first two missions of fiscal year 1982, to Jamaica and Haiti.

Industry seminars held in the United States can also provide corporate executives with information on where and how to develop new business through overseas investment. OPIC held a seminar for the construction industry in Washington, D.C., in September 1981. The 100 representatives of U.S. manufacturers of construction equipment and material attending the seminar heard government officials of five less developed countries speak about proposed construction activities in their countries. In addition, participants were informed about assistance available from OPIC, the Department of Commerce and the State Department. As a direct result of this seminar, six participants initiated discussions with OPIC officers and officials of the less developed countries to undertake projects in the construction materials and equipment manufacturing sector. Additional industry seminars in food production/processing and medical supplies/equipment are planned for fiscal year 1982.

COMPLEMENTARITY WITH OTHER DEVELOPMENT ORGANIZATIONS

OPIC's programs directly complement the efforts of other development organizations. Through its insurance program, OPIC can help encourage more private participation in World Bank projects. OPIC's finance activities—either loan guaranties or loans—can make major contributions to the International Finance Corporation's efforts to support private-sector projects in developing countries. OPIC's insurance and finance programs thus have the ability to help multilateral development institutions maximize their available resources.

In 1981 OPIC insured or financed eight projects which were also supported by other development organizations. In Zambia, OPIC guaranteed a $30 million loan to Nchanga Consolidated Copper Mines for the construction of a facility to leach tailings. The International Finance Corporation, the Commonwealth Development Corporation and the European Investment Bank are among the other backers of the project.

Through its letters of credit program, OPIC insured three performance letters of credit posted for projects in Pakistan, the Yemen Arab Republic and Syria. In Pakistan, the U.S. investor will supply and install a telecommunications network for the Pakistani railway network in a project financed by the World Bank. In Yemen, an American investor will implement a manpower training program for the maintenance of the Yemeni road system. The project is being funded by the International Development Association, the World Bank's soft-term loan affiliate. A U.S. contractor in Syria will provide engineering and consulting services in connection with the construction of a four-lane highway between Damascus and the Jordanian border. The U.S. Agency for International Development has committed approximately $45 million in credit for completion of the highway.

VI. IMPACT OF OPIC-ASSISTED PROJECTS ON THE UNITED STATES

Just as every project proposed to OPIC is analyzed to ensure that it will make a positive contribution to the development of the host nation, each insurance or finance application also is analyzed carefully to ensure that it will not have a significant adverse effect on U.S. employment. OPIC evaluates the impact in the U.S. and host country of projects by analyzing the investor's projections and monitoring the subsequent effects. As part of this ongoing program, OPIC monitored 49 projects last year. This entailed both contact with the U.S. investors' home offices and visits by OPIC staff to the project sites for interviews with officers of the foreign enterprises. In general, the monitored projects grew at a faster rate than had been expected, and their developmental benefits—including job creation, worker training, foreign exchange savings, government revenues and community involvement—were much greater than had been originally predicted. The benefits to the United States also slightly exceeded original estimates.

OPIC's economists, in consultation with other U.S. Government and private sector experts, carefully evaluate the probable impact proposed projects will have on the United States, including factors such as the level of domestic employment, exports, balance of payments and the transfer of high technology abroad. OPIC denies assistance to "runaway plants" or other projects that might result in a significant loss of U.S. jobs, either through increased U.S. imports or a loss of export markets for U.S. products. Since 1974, OPIC has rejected 81 such projects formally, and many others informally.

Foreign private investment by U.S. corporations not only promotes economic development in the host countries, but contributes to the growth of the U.S. economy as well. Such overseas investments create new and continuing demands for exports of U.S.-manufactured goods, raw materials, and agricultural products.

The need to expand markets for U.S. products in the developing countries has taken on added significance in light of the United States merchandise trade deficit. Economic growth in the developing countries is accelerating steadily, and they now represent our most promising markets. An indication of the potential offered by these markets is the phenomenal growth of developing country imports from the U.S. Imports of U.S. products by the developing world grew from $10 billion in 1970 to over $87 billion in 1980, accounting for a 39 percent share of U.S. exports—larger than exports to the EEC countries, Eastern Europe, Japan and Australia combined.

The natural linkage between private investment in a foreign country and exports from the parent company to the project can provide an effective means to tap this growing market. About one-third of all U.S. exports in 1980, for example, were shipped to overseas affiliates and subsidiaries of U.S. corporations. These overseas subsidiaries are much more inclined to buy U.S. products and equipment than are foreign-controlled companies. In many instances, foreign investment allows the U.S. investor to reach markets that cannot be served competitively from the United States. This process, in turn, opens new export opportunities for

PROJECT MONITORING

One of the projects chosen for the 1981 monitoring effort was the Societe D'Investissement Rwandais du The. OPIC in conjunction with the International Finance Corporation (IFC) and the Rwanda Development Bank provided financing for the establishment of a tea processing factory and marketing company in 1977. Prior to the factory's establishment all tea factories in Rwanda, one of the poorest countries in the world, were government owned. Production has increased each year since 1979, and the marketing company has begun to sell tea from other government-owned factories as well as its own. The project complements earlier foreign aid projects which planted tea plants and trained farmers in its cultivation. Over 3,000 farm families now supply tea to the processing factory. Through both its sophisticated marketing skills and its technology, the project has helped Rwanda diversify its exports and support rural farm families.

TABLE II

Estimated U.S. Economic Benefits of OPIC-Assisted Projects, FY 1978-81

	Values (Millions of Dollars)				
	FY 78	FY 79	FY 80	FY 81	Total
Total Project Investments Assisted	$665	$894	$2,465	$4,533	$8,557
U.S. Investment in Projects	$317	$499	$ 917	$1,851	$3,584
U.S. Percent of Total	48%	56%	37%	41%	42%
U.S. Exports					
Initial Procurement	$136	$330	$ 564	$1,571	$2,601
Follow-on Procurement of Production Inputs (5 years)	$671	$637	$ 670	$ 791	$2,769
Total Direct U.S. Project Exports (5 years)	$807	$967	$1,234	$2,362	$5,370
Estimated Man-Years of U.S. Employment Generated (5 years)	14,698	16,744	17,352	38,222	87,016

U.S. goods and services as local consumers become familiar with U.S. products, quality and standards.

The 113 projects which OPIC assisted in fiscal year 1981 are expected to result in some $1.6 billion in initial purchases of U.S. machinery, equipment and supplies for use in their establishment. During the first five years after start-up, these projects will purchase an additional $791 million of U.S. exports. The net direct U.S. trade benefit of these projects will amount to $2.4 billion in new U.S. exports. The U.S. investors report that these projects will generate some 38,200 man-years of employment in the United States to manufacture, mine, grow, process and ship these additional U.S. exports.

The projects also will generate a positive net capital flow to the United States within five years of $176 million, resulting in an overall combined benefit to the U.S. balance of payments of $2.6 billion during this five year period.

The U.S. economic benefits resulting from projects assisted by OPIC between reauthorizations have exhibited a steady upward trend as shown in Table II.

U.S. BENEFITS

U.S. investors abroad tend to look to American sources of supply for the materials and equipment needed to establish and operate a foreign enterprise. For example, during the past year more than 55 percent of initial foreign procurement for OPIC projects will come from U.S. sources. A Western Electric project in Korea involving production of electronic switching equipment will result in over $77,500,000 in initial U.S. procurement and the purchase of an estimated $135,000,000 in production inputs from the United States over the next five years.

VII. OPIC'S FUTURE DEVELOPMENTAL ROLE AND ACTIVITIES

OPIC's developmental efforts over the past year—and over the four years since the 1978 reauthorization—have been clearly successful. Developmental challenges facing OPIC in the 1980s will be great, given a forecast that the developing nations will find it increasingly difficult to service debt, obtain long-term concessional financing, and improve their standard of living. As the U.S. Government turns to the private sector to provide a greater stimulus to the development process, OPIC will be called upon to play an ever more important role.

OPIC is prepared to handle this new and important challenge. This ability has emerged from OPIC's long and extensive experience with the promotion of U.S. private direct foreign investment, which has earned recognition for OPIC as the senior U.S. Government agency in this area. In addition, OPIC has recently undertaken a number of new and expanded measures (consistent with its reauthorization legislation and special initiatives of interest to Congress and the Administration) designed to assist investors. Moreover, OPIC has recently initiated an extensive marketing effort to alert U.S. business to OPIC's services. This effort will focus new attention on the challenge of matching potential U.S. investors with business opportunities in the developing countries.

Services and Special Initiatives

Certain established services relating to OPIC's small grant and feasibility study programs have received new emphasis and direction during fiscal year 1981 and will play an important role in supporting OPIC's fiscal year 1982 efforts to promote overseas investments.

Assistance to private voluntary organizations, non-profit organizations and cooperatives in fiscal year 1981 amounted to $743,000, a substantial increase over the previous year's program expenditure of $537,500. Training grants, a program initiated in fiscal year 1981, provided financing valued at $123,500 for seven projects. Other grant activities, designed to encourage overseas investment through remuneration of certain transactional costs (such as legal, accounting, consultant or life insurance costs) amounted to $48,476 for 13 projects in fiscal year 1981—an increase over similar activities undertaken in the previous fiscal year amounting to $28,764 for 10 projects.

OPIC's participation in feasibility studies in fiscal year 1981 was approximately $224,200 for ten projects (investor participation amounted to $136,800), compared to approximately $211,300 for eight projects (investor participation $141,400) in the previous fiscal year. The program serves to protect the interests of both the small investor and the host country by assisting the investor to assess the viability of an investment.

OPIC will continue to be responsive to new developmental challenges. In the past this has been exemplified by its participation in various initiatives of special interest to Congress and the Administration—for example, energy and the Caribbean Basin. In the future there will undoubtedly be unanticipated challenges that OPIC will be called upon to meet. One challenge has been clearly identified already however—the challenge to communicate effectively to U.S. businessmen about opportunities in the developing world.

In its initial response to this challenge, OPIC has created a new department to coordinate its marketing efforts which were inaugurated in fiscal year 1981. The marketing activities will involve not only increased education of the U.S. business community about OPIC services and investment opportunities in the developing world, but also the provision of mechanisms for bringing the U.S. investor and host country together.

An array of educational tools, including audio-visual materials, brochures, advertising and other communications techniques, will be employed directly and through intermediaries to reach potential investors. Investment missions will be relied upon more heavily to bring potential investors in contact with interested host country governments and potential joint venture partners. In addition, OPIC has added a new and innovative marketing activity, similar in concept to investment missions, but using satellite communication in place of travel—so-called "telemissions".

Telemissions will use satellite communication to link potential U.S. investors and interested host country participants in live two-way television broadcasts between U.S. and foreign cities. The first telemission took place between Cairo and selected U.S. locations in the Spring of 1982. Top Egyptian officials simultaneously talked with interested businessmen at 6 sites in the United States. Subsequent to a careful evaluation of the results of that effort, further telemissions with other developing nations will be planned.

OPIC's new marketing efforts will be targeted to take into consideration the special developmental benefits of certain types of projects. An extensive target sector study, completed in fiscal year 1981, indicated the need to focus marketing efforts in three major industrial sectors: food processing equipment; medical equipment and supplies; and agricultural enterprises such as seed propagation, fisheries, and poultry. These major sector areas will be evaluated further to narrow the scope to specific subsector targets. OPIC will make special efforts to reach targeted sectors through active trade association contacts, a company calling program, and project introduction and matching.

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APPENDIX: LIST OF INVESTORS INSURED IN FY 1981

Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
A.B.A. Industries, Inc.	Costa Rica	Manufacture metal machine parts	$ 70,000	$ 63,000
Abbott Laboratories	Indonesia	Pharmaceutical production (expansion)	1,496,000	1,481,000
Air Products and Chemicals, Inc.	Korea	Manufacture industrial gases	2,785,000	2,506,500
American Express International Banking Corporation	Turkey	Branch bank	5,000,000	4,500,000
American Express International Banking Corporation	Sri Lanka	Branch bank	630,119	567,107
American President Lines, Ltd.	Philippines	Install crane and port terminal assets (expansion)	1,882,057	1,693,851
American Standard, Inc.	Thailand	Manufacture vitreous china sanitaryware (expansion)	105,000	1,093,500
American Standard, Inc.	Dominican Republic	Manufacture vitreous china sanitaryware	510,000	1,377,000
Ampex Corporation	Taiwan	Manufacture electronic components (expansion)	10,781,697	11,200,000
André Greenhouses, Inc.	Dominican Republic	Construct and operate greenhouses for rose production	500,000	765,000
The Anschutz Overseas Corporation	Dominican Republic	Hydrocarbon exploration development and production	83,333,333	75,000,000
Applied Magnetics Corporation	Korea	Manufacture magnetic recording heads (expansion)	1,400,000	2,965,500
Arcidy, Louis J., *et al.*	St. Lucia	Manufacture fixed wirewound resistors and coils	300,000	200,000
Arkel International, Inc.	Sudan	Cargo handling, customs clearance and transportation services	993,432	2,005,014
Armco, Inc.	Zaire	Manufacture nestable, galvanized corrugated steel pipe	1,387,271	1,672,032
A-T-O, Inc.	Haiti	Manufacture baseball and softball gloves	1,250,000	1,137,420
BankAmerica International	Honduras	Manufacture electric wire and cable	1,500,000	3,000,000
Bank of America NT&SA	Pakistan	Branch bank (expansion)	787,180	708,462
Blount, Inc. & Blount International Limited****	Saudi Arabia	Construct academic facilities	122,222,222	110,000,000
Boggs, G.E. & Associates, Inc.****	Syria	Construct and install dispatching system to regulate water flow (expansion)	75,000	67,500
Boggs, G.E. & Associates, Inc.****	Syria	Install communication subsystem linking water stations and main control center (expansion)	25,000	22,500
Boudet, James L., *et al.*	Costa Rica	Plant and cultivate lime and orange groves	932,850	839,565
Brothers, William C.	Belize	Cedar shingle mill (expansion)	107,550	290,385

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Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
Buckbee-Mears Co.	Singapore	Manufacture metal platings and stampings	$ 3,500,000	$ 3,150,000
Caltex (Overseas) Ltd.	Korea	Oil refinery (expansion)	3,810,585	7,621,170
The Carlson Group, Inc.****	Saudi Arabia	Construct student housing and vocational training center	3,377,316	3,039,585
Chase Manhattan Bank, N.A.	Dominican Republic	Branch bank (expansion)	999,320	899,388
Chase Manhattan Bank, N.A.	Dominican Republic	Branch bank (expansion)	1,000,000	900,000
Chase Manhattan Bank, N.A.	Thailand	Branch bank (expansion)	4,000,000	3,600,000
Chicago Bridge and Iron Company*	Netherlands Antilles	Petroleum blending, transshipment and marine bunkering facilities	6,500,000	7,420,500
Chicago Bridge and Iron† Company*	Panama	Construct petroleum pipeline	–0–	11,966,025
Citibank, N.A.	Indonesia	Branch bank (expansion)	6,800,000	6,000,000
Citibank, N.A.	Korea	Branch bank (expansion)	1,700,000	1,530,000
Citibank, N.A.	Malaysia	Branch bank (expansion)	2,716,000	2,444,400
Citibank, N.A.	Pakistan	Branch bank (expansion)	885,100	796,590
Citibank, N.A.	Senegal	Branch bank (expansion)	1,136,000	1,022,400
Citibank, N.A.	Turkey	Branch bank	1,000,000	900,000
Citibank, N.A.	Yemen (North)	Branch bank (expansion)	1,315,068	1,183,561
Citibank, N.A.	Zambia	Commercial bank	2,500,000	2,750,000
Citibank Overseas Investment Corporation	Korea	Lease to industrial, construction and medical sectors (expansion)	3,983,673	7,170,611
Citibank Overseas Investment Corporation	Taiwan	Trust and investment bank (expansion)	1,278,500	1,925,000
Consumer Services International Corp.*	Taiwan	Trust and investment bank (expansion)	1,278,500	1,925,000
The Continental Group	Korea	Manufacture aluminum beverage cans	4,800,000	4,320,000
Continental Illinois National Bank & Trust Co. of Chicago	Korea	Branch bank (expansion)	849,185	764,266
Continental Illinois National Bank & Trust Co. of Chicago*	Netherlands Antilles	Petroleum blending/ transshipment and marine bunkering facility	6,000,000	12,000,000
Crescent Corset Company, Inc.	Honduras	Process pre-cut textiles	705,675	635,108
J. deBeer & Son, Inc	Dominican Republic	Manufacture baseballs and softballs	300,000	270,000
Dravo Corporatio ····	Saudi Arabia	Construct and install desalting facilities	11,780,000	8,485,612
Ecology and Environment International****	Saudi Arabia	Prepare environmental studies	1,025,413	922,872
Federal Electric Corporation****	Saudi Arabia	Install hyperbolic radio navigation system	963,636	867,272
FMC Corporation****	Saudi Arabia	Manufacture and deliver traveling water screens and traversing trash rakes	1,063,426	871,847

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Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
The Foxboro Company	Korea	Manufacture industrial process control instrumentation (expansion)	$ 419,244	$ 377,320
General Electric Company	Malaysia	Manufacture television receiver components	300,000	972,000
General Electric Company	Philippines	Manufacture watt-hour meters	503,925	2,721,195
General Electric Company****	Saudi Arabia	Install turbine generator electric power plant	26,906,420	24,215,778
General Instrument of Canada, Ltd.	Malaysia	Manufacture opto-electronic devices (expansion)	4,082,192	6,139,516
Gerber Scientific, Inc.	Israel	Manufacture computer-controlled sewing systems and security systems (expansion)	124,737	336,790
Goedecke, A.G.*	Egypt	Manufacture chewing gum and specialty food products	2,035,700	5,496,390
B.F. Goodrich Co.****	Syria	Supply of tires and tubes	214,515	193,064
Goodyear Tire & Rubber Company	Taiwan	Tire plant (expansion)	625,500	938,250
Harza Engineering Company International****	Thailand	Consult on dam construction	203,080	135,912
Health Care International****	Saudi Arabia	Staff and operate hospital	950,000	855,000
Intel Corporation	Israel	Manufacture semi-conductors	15,000,000	40,500,000
Intelco, Ltd.****	Saudi Arabia	Design and erect transmitting center	350,000	315,000
International Multifoods Corporation**	Egypt	Manufacture pasta and bread	1,100,000	1,620,000
ITC Industries (HK) Ltd.	Dominican Republic	Manufacture toys and games	1,080,000	972,000
Kentron Pakistan Inc.****	Pakistan	Supply and install telecommunication network	3,475,615	3,128,054
Louisiana Land & Exploration Egypt, Inc.	Egypt	Oil exploration and production	55,555,555	50,000,000
Marine Travelift, Inc.****	Tunisia	Supply and erect two mobile boat hoists	103,938	93,544
Mathieu, Ralph	Haiti	Jojoba bean plantation	75,000	69,750
Mobil International Petroleum Corporation	Ivory Coast	Oil refinery (expansion)	3,186,061	8,602,365
Motorola International Development Corporation	Philippines	Manufacture electronic devices	10,160,780	14,823,539
Northville Terminal Corporation*†	Panama	Construct petroleum pipeline	—0—	20,820,300
Overseas Bechtel, Inc.****	Egypt	Consult on electrical power generator	490,000	360,000
Owens-Illinois, Inc.**	Egypt	Manufacture glass containers	3,800,000	5,058,000
Pepper Construction International, Ltd.****	Saudi Arabia	Construct urea berthside loading facility	6,791,281	6,112,154

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Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
Phelps Dodge Corporation**	Honduras	Manufacture electrical building wires and cables	$ 1,127,950	$ 1,605,465
Philadelphia International Investment Corporation	Thailand	Investment bank (expansion)	234,955	648,616
Planning Research Corporation****	Yemen (North)	Highway maintenance training program	514,645	463,181
Raymond International Builders, Inc.****	Saudi Arabia	Supply steel pipe for water desalination	14,317,000	12,885,300
Raymond International, Inc.****	Saudi Arabia	Construct berthing facilities	1,000,000	900,000
Reading & Bates Construction Company	Saudi Arabia	Construct steel pipeline	10,000,000	15,300,000
REPCO, Ltd.	Honduras	Manufacture semi-finished wood products (expansion)	68,850	185,895
Revlon, Inc.	Thailand	Cosmetics distributorship (expansion)	856,000	2,430,056
Richardson-Vicks, Inc.	Kenya	Manufacture health care products	594,949	1,013,349
Robertson, H.H. Company****	Saudi Arabia	Supply and install wall enclosures	387,500	348,750
Seaward International, Inc.****	Saudi Arabia	Equip and service oil spill protection program	179,515	161,563
Somerset Welding & Steel, Inc.****	Syria	Supply 27 dump trucks and accessories	167,305	150,575
Southern Wood Piedmont Company****	Syria	Supply chemically treated wooden electric utility poles	980,000	882,000
Sprague Electric Company	Philippines	Assemble transistors and integrated circuits (expansion)	990,000	1,782,000
Standex International Corporation	Haiti	Assemble capacitors	770,000	729,225
Sylvania Overseas Trading Corporation	Haiti	Assemble metal and plastic components (expansion)	1,750,000	1,750,000
Tera Corporation****	Jordan	Implement database management information system	30,000	27,000
Tippetts-Abbett-McCarthy-Stratton****	Syria	Provide engineering services for highway building project	184,500	166,050
Tri-State Culvert Corporation	Guatemala	Manufacture metal culvert pipe, flood protectors and grain silos	300,000	810,000
Union Oil Company of Thailand	Thailand	Develop gas fields	281,120,000	100,000,000
Universal Leaf Tobacco Company, Inc.	Brazil	Process tobacco (expansion)	1,649,250	4,452,975
Warner-Lambert Company***	Egypt	Manufacture chewing gum and specialty food products	—0—	4,500,000
Western Electric International, Inc.****	Korea	Supply telephone exchange equipment	3,532,217	3,178,996
Western Electric Company, Inc.	Korea	Manufacture electronics/ telecommunications equipment	9,156,756	8,241,080
World's Finest Chocolate Inc.	St. Lucia	Rehabilitate cocoa plantation (expansion)	598,500	1,077,300

FINANCE PROJECTS COMMITTED IN FY 1981

Company	*Country*	*Project*	*Total Project*	*Amount of OPIC Financing*
Agro-Tech International, Inc.	Dominican Republic	Poultry breeding and broiler farm expansion	$ 600,000	$ 400,000
Alumina Partners of Jamaica	Jamaica	Bauxite mine	130,100,000	50,000,000
André Greenhouses, Inc.	Dominican Republic	Rose growing operation	500,000	250,000
Arkel Talab Cargo Services Limited	Sudan	Customs clearance, cargo and specialized trucking services	1,575,000	1,185,000
Concentrados Marinos Bayovar, S.A.	Peru	Fish processing plant	12,300,000	2,595,000
Designatronics, Inc.	Haiti	Expansion of inductive electronic components assembly plant	701,450	520,000
Fabritek La Romana	Dominican Republic	Manufacture cotton gauze for surgical sponges	3,000,000	2,000,000
Goldsmith Seeds Incorporated	Kenya	Hybrid flower and vegetable seed production and processing	600,000	260,000
Imperial Industries, Inc.	Haiti	Manufacture toys	600,000	300,000
Jamaica Broilers, Ltd.	Jamaica	Expansion of integrated poultry operation	3,815,000	1,000,000
Marco Peruana, S.A.	Peru	Hydraulic, electronic and refrigeration components distributorship	500,000	300,000
Merck, Sharp and Dohme of Pakistan Limited	Pakistan	Pharmaceutical formulation and packaging operation	4,521,000	2,930,000
Metal Fabricators of Zambia Limited	Zambia	Expansion and modernization of a copper casting mill	5,984,817	2,200,000
Nchanga Consolidated Copper Mines Limited	Zambia	Tailings leach plant	250,000,000	30,000,000
PICO Products, Inc.	St. Vincent	Manufacture components of an electronic security device	335,000	150,000
Pioneer Tuna Fishing Company Limited	Ghana	Acquisition of tuna fishing vessels	3,800,000	2,000,000
Polymer Lanka Inc.	Sri Lanka	Manufacture solid rubber tires and shock absorber bushings	700,000	300,000
P.T. Spicer Indonesia	Indonesia	Vehicle parts assembly plant	7,713,000	3,850,000
T.K.F.-American Egyptian Co. Ltd.	Egypt	Design, assemble and sell industrial conveyor systems	1,400,000	700,000
Witherspoon International Corporation	Regional-Caribbean	Relending program to small business projects	650,000	325,000

THE WORLD OF OPIC

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OPIC's COUNTRY & AREA LIST

OPIC has agreements with all of the listed countries and areas to permit the operation of insurance and finance programs.

OPIC programs are presently available in most participating countries and areas although coverages are limited in some respects in higher income areas which are indicated by an asterisk.

Afghanistan
Antigua
Argentina
Bangladesh
Barbados
Belize
Benin
Bolivia
Botswana
Brazil
Burundi
Cameroon
Central African Rep.
Chad
Chile
China
China (Taiwan)
Colombia
Congo, People's Rep.
Costa Rica
Cyprus*
Dominica
Dominican Rep.
Ecuador
Egypt, Arab Rep.
El Salvador
Ethiopia
Fiji
Gabon*
Gambia
Ghana
Greece*
Grenada
Guatemala
Guinea
Guyana
Haiti
Honduras
India
Indonesia
Israel*
Ivory Coast
Jamaica
Jordan
Kenya
Korea
Lebanon
Lesotho
Liberia
Madagascar
Malawi
Malaysia
Mali
Malta
Mauritania
Mauritius
Morocco
Nepal
Neth. Antilles
Nicaragua
Niger
Nigeria
Oman*
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Portugal
Romania
Rwanda
St. Kitts-Nevis
St. Lucia
St. Vincent
Saudi Arabia*
Senegal
Sierra Leone
Singapore*
Somalia
Sri Lanka
Sudan
Swaziland
Syria
Tanzania
Thailand
Togo
Trinidad-Tobago*
Tunisia
Turkey
Uganda
Upper Volta
Venezuela*
Western Samoa
Yemen Arab Rep.
Yugoslavia
Zaire
Zambia

For current information regarding OPIC services offered in specific countries and areas, including their potential availability in nations not listed, or possible temporary limitations due to administrative or underwriting considerations, please call OPIC's Information Officer, Overseas Private Investment Corporation, Washington, D.C. 20527—(202) 653-2800.

Senator HAYAKAWA. Thank you, Mr. Nalen. We are very grateful to you for your testimony.

I would like to ask you a few questions now if I may.

Mr. NALEN. Yes, sir.

Senator HAYAKAWA. Basically, the purpose of OPIC is to get private companies in this country to invest in foreign countries.

Mr. NALEN. Yes, sir, in friendly Third World countries.

Senator HAYAKAWA. So that these American companies will make money, and at the same time it will help in the development of industry elsewhere in other countries.

Mr. NALEN. Precisely.

Senator HAYAKAWA. So it is both for our benefit and for theirs.

Mr. NALEN. Yes, sir.

Senator HAYAKAWA. The overall effect of this, besides the economic benefits conferred on both sides, is a reduction in the provincialism with which our business has often been afflicted. We have ignored very often the fact that there are export markets out there and opportunities for foreign investment that would be beneficial to the American businessman.

There are so many American businessmen who never think beyond our own borders, and it takes a great wrench of the imagination for some of them to even think of exporting as far as Winnipeg, let alone Indonesia. I am sure you have run into that.

Mr. NALEN. We most definitely have, sir.

Senator HAYAKAWA. In your prepared statement you spoke of the seminars you held and the mission you are about to undertake in Bangkok. Tell me a little bit more in detail about how you organized your mission to Thailand. How did you select American business representation, how did you select your target audience in Thailand.

And since we have the Ambassador to Thailand, Ambassador Prok, here, I would like him to comment on your answer. How would that be? Ambassador Prok, would you care to come up to the witness table, please. We rarely have the opportunity to have the Ambassador of one of the nations we are discussing present at our hearing, so it would be very nice to have you take part in this discussion.

You are most welcome, Mr. Ambassador. Mr. Ambassador, this is Mr. Nalen.

Mr. NALEN. Thank you, Mr. Chairman. The distinguished Ambassador and I had the good fortune to meet one another last night, it so happens, by coincidence.

Senator HAYAKAWA. All right.

The question is, How did you put together these seminars? How did you select the American companies and American business representation to take part in these seminars? How did you select your target audience in Thailand?

Mr. NALEN. Thank you. First of all, I will tell you, it was not an easy job and it takes many months of preparation. It involves working very closely with our own private sector, obviously, but it also requires the close cooperation of our Embassy in the host country, in this case Thailand, and of course working very closely with both the government and the private sector in the host country.

The selection of Thailand as an investment mission target was influenced in part by our close cooperation with AID. Ms. du Pont's

PRE [private enterprise office], has a program of sending some preliminary missions over where they do some groundwork. They do not actually execute business deals, but they determine where there might be opportunities. We feed that information into our own data bank, which, in turn, helps highlight areas where investment opportunities might exist. We have also established four target sectors for investment which are generally applicable for most developing nations, and they are: food production, construction materials, energy projects, and medical supplies.

We have selected those for two very good reasons: First, they are generally sectors that the host countries themselves have urgent needs for; second, they have great developmental impact on the host countries themselves; and third—and this is very important—they are areas in which there are many U.S. companies, and most of them small- and medium-sized companies, that are well positioned to take advantage of these particular business opportunities. I think you know one of our mandates is to become involved more and more with smaller businesses, rather than the Fortune 1000.

So we have a computer set up, Mr. Chairman, where we feed in both the needs and desires of companies both in this country who are looking for opportunities, as well as requests we get from Thailand, in this case from particular segments within these areas. And we act as a matchmaker, if you will.

We send out thousands of direct mail pieces to company executives telling them about the forthcoming mission. We interview them individually, those who show some interest, and we are constantly building our own opportunity bank in this matchmaking process. And from that we will select about 20—and we found 20 is about a workable size—20 representatives from the private sector to participate in the investment mission and spend a full 5 or 6 working days in Thailand.

I would like to take this opportunity to thank the Ambassador for the help and cooperation his counterparts back in Bangkok gave us.

Senator HAYAKAWA. Mr. Ambassador, would you care to comment?

Ambassador PROK. Mr. Chairman, thank you so much for inviting me here. It is a rare honor and privilege.

The seminar in Bangkok, as you heard, has been well conceived and carefully planned. I followed the work and activities on this project with great interest.

First of all, Thailand felt very greatly privileged to be singled out as one of the few target countries for this particular purpose. As far as the American business community in Thailand, I think it is well organized. And because of that, I think it is partially responsible for the seminar being well organized and well prepared.

I think the seminar will help identify problems that American businessmen and potential investors from the United States have been facing.

As I see it, the U.S. businessmen in Thailand have been put in some disadvantageous positions vis-a-vis the other foreign investors in that same country. Therefore, I think this will be a very important achievement which I think that the seminar will have.

Senator HAYAKAWA. I ask my next question of both of you: What are the industries in which outside capital, outside technology, out-

side expertise are most needed? Would this be in heavy industries? Would this be in pharmaceuticals?

Mr. NALEN. I will take a crack at that first, Mr. Chairman, and will mention the target sector philosophy which we have adopted which is provided in my testimony. Very briefly, it focuses on four major areas where we believe there is the greatest opportunity for technology transfer, the greatest opportunity to have a developmental impact on the host country itself and at that the same time where there would be many companies here in the United States that can take advantage of that opportunity.

At the risk of oversimplifying these are the energy area; the food production area—agribusiness, essentially; construction materials; and medical supplies.

Senator HAYAKAWA. Did you say instructional materials?

Mr. NALEN. Construction materials, such as those used in housing.

Senator HAYAKAWA. I see. What was your last one?

Mr. NALEN. The last one was medical supplies.

Senator HAYAKAWA. Does that include pharmaceuticals and medical instruments?

Mr. NALEN. Exactly. I would be interested in hearing the Ambassador's response.

Senator HAYAKAWA. What would you put as the foremost important areas, Mr. Ambassador, where investment and technology can help? Would you agree with that list?

Ambassador PROK. Well, I would look at it from another angle, though I do not disagree with my friend here. I think the answer would be the same, but I would look at it from the development plans point of view. Thailand is just beginning to develop two or three new industries and areas. One is in agro-based industries, using agricultural products, not only food but other agricultural products as well, such as agro feeds and so on.

Then we are just getting natural gas onstream. Natural gas will be a big surplus very soon. So we need things associated with natural gas, refining natural gas and converting it into chemicals for other industries. That would be the basis of the high-technology industries for which we need expertise as well as finance.

We also just fortunately discovered oil for the first time on land, not off-land or offshore. This also will be a very important thing for Thailand in the future of its economy.

Senator HAYAKAWA. Does the exploitation of oil require foreign assistance and foreign capital?

Ambassador PROK. I am sure of it. Also, there will be some other downstream industries which will require both expertise and finance. Then we have a new project which is coming up on the eastern seaboard. The eastern seaboard development is to develop the whole area which will be partly a deep seaport.

And also there will be a sort of industrial estuary area. This will be where the petroleum and natural gas industries will be located. The whole area will have to be developed and it will require many things such as infrastructure, particularly communications, railways, and so on.

All of these things, Mr. Chairman, will require a new look which will convert or change the face of the economy of Thailand. It will re-

quire tremendous investment, and I think this is where American expertise is available.

Senator HAYAKAWA. Your east coast then would become like the Kamaishi area in Japan with Osaka and Kobe and Nagoya, the big seaports, shipbuilding industry, energy all coming together; is that the idea?

Ambassador PROK. Yes, sir, because that is the natural area for a deep seaport, unlike Bangkok, which is already congested and it is now the only real industrial center. Therefore, there will be a shift, as you say, Mr. Chairman.

Mr. NALEN. I might say that that offshore gas project which the Ambassador mentioned is one that has been supported by OPIC. It is one of our projects. This entire project which includes the port facility which has been stimulated by the offshore gas field is a $500 million project, of which I believe $100 million will be used to procure U.S. contractors and supplies and so forth. So again it is a perfect example of where everybody comes out a winner, certainly our own economy as well as the Thai economy.

Senator HAYAKAWA. Well, I do have some other questions, but I think we have gone pretty deeply into all of these subjects today. We have all been sitting here for too long.

I do recall that I had a conversation with the president of Union Oil Co. at breakfast in Bangkok last August. And one of the things we talked about was natural gas. I myself feel that Thailand is one of the important developing nations in the world, and our friendship with Thailand, as with many other of the nations of ASEAN, is a very important part of our future in America. So I am very grateful to you, Mr. Ambassador, for joining our discussion.

And I am very grateful to you, Mr. Nalen, for informing us about your work in OPIC. I shall read your whole statement later this evening. I do look forward to reading it with great pleasure and learning a number of things I did not know before.

Let me say to both of you as well as to Mr. Holdridge and Mr. Armitage, who were here earlier, that this has been one of the most interesting hearings that I have had for a long, long time, and I have enjoyed it personally very much. So with many thanks to all of you and to the audience, I declare this meeting adjourned.

[Whereupon, at 11:38 a.m., the subcommittee adjourned, to reconvene at 2 p.m., Thursday, June 10, 1982.]

U.S. POLICIES AND PROGRAMS IN SOUTHEAST ASIA

THURSDAY, JUNE 10, 1982

UNITED STATES SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 4221, Dirksen Senate Office Building, Hon. S. I. Hayakawa (chairman of the subcommittee) presiding.

Present: Senators Hayakawa and Biden.

Senator HAYAKAWA. The Subcommittee on East Asian and Pacific Affairs will please come to order.

This afternoon we begin the second in a series of hearings on U.S. policies and programs in Southeast Asia. As I mentioned at the beginning of the first hearing in the series, we will take as our departure point the hearings on this subject a year ago. So in effect, we are trying to determine what is new and different in the summer of 1982.

Last Tuesday, Assistant Secretary of State Holdridge and Deputy Assistant Secretary of Defense Armitage set the scene for us by describing overall U.S. interest in this very important part of the world. They analyzed for us the state of our relations with our ASEAN friends and outlined the problems confronting our Government. Mr. Armitage presented a very thorough analysis of the Soviet threat to our interests in the western Pacific.

Mr. Nalen, the president of the Overseas Private Investment Corporation [OPIC], told us of the very important work of his corporation in promoting U.S. trade and investment in the area. It is this subject that we will explore today.

It is extremely important to the United States and to the five countries comprising the Association of Southeast Asia Nations [ASEAN] that we concert our efforts in the economic area so that two-way trade expands as rapidly as possible and so that investment opportunities are made known to the business world. As President Reagan so often has emphasized, the private sector can and should make the major contribution to the development of the Third World and thus to the betterment of their peoples.

During my tenure as chairman of this subcommittee, I have taken as one of my objectives to publicize the importance of the role of private enterprise and to promote the expansion of U.S. trade and investment in Southeast Asia.

We have with us this afternoon a distinguished panel of witnesses to assist us in our examination of the problems and prospects for trade, investment, and development in Southeast Asia. The witnesses are:

Mr. Anthony C. Albrecht, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, who will discuss economic interests in the area. We are glad to have you with us, Mr. Albrecht.

We also have the Honorable Elise R. W. du Pont, Assistant Administrator, Bureau for Private Enterprise, AID, who will describe the role played by the private sector in the economic development of the area. You are most welcome, Ms. du Pont.

We have also the Honorable John A. Bohn, Jr., U.S. Executive Director, Asian Development Bank, who will speak on the role of the Bank in furthering our interests in Southeast Asia, as well as the Bank's problems and prospects. You are most welcome, Mr. Bohn.

Welcome back to the committee, Ms. du Pont and Mr. Bohn. And it is a pleasure to welcome you for your first appearance, Mr. Albrecht. Since we have no other members of the subcommittee here to make introductory statements, we are ready to proceed. We will hear first from Mr. Albrecht, then from Ms. du Pont, and then from Mr. Bohn. When all of you have finished summarizing your remarks, we will proceed to questions for all of you as may seem necessary and appropriate.

Mr. Albrecht, you may proceed. If you have a paper of some length, I would be grateful if you would summarize its contents. We will put your full statement into the record. Please proceed, Mr. Albrecht.

STATEMENT OF ANTHONY C. ALBRECHT, DEPUTY ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS

Mr. ALBRECHT. Thank you, Mr. Chairman. I am very pleased to be here today to discuss one of my favorate subjects.

I would like to say first, however, that I want to express my personal appreciation for the efforts that you, your committee, and your staff have made to bring greater attention and understanding on the part of the United States and U.S. businessmen and Government officials and others to this important area, which is extremely dynamic and is going to be very important for the future of the United States.

If I might briefly summarize—the subject is Southeast Asia—I noted a few points with respect to our contacts with Burma and Brunei and the situation with respect to Vietnam, and I will leave that as it is in my testimony and will move on to our relations with ASEAN.

I think the fundamental point to make is that the development of ASEAN and the strength of ASEAN really have taken off since 1976. I think as far as we are concerned we have to begin with an appreciation of the nature of ASEAN. First, as I noted in my testimony, agriculture and the production of basic commodities are the principal economic activities in ASEAN, with the exception, of course, of the highly industrialized activities in Singapore.

As a consequence, some of the commodity issues become absolutely vital. And as all of us are aware, the ASEAN nations are particularly concerned about such items as tin. We have had intense discussions with them on that subject.

As far as economic growth is concerned, over the last decade the 7-percent economic growth—that is real growth per year, average growth—has earned ASEAN the reputation as perhaps the most dynamic area in the world. And significantly for this hearing, the private sector has played a very key role in this. This in my view makes

it quite easy for the United States to work with ASEAN and to strengthen our trade and investment relations.

At the present time, the ASEAN countries face a very difficult world economic situation, particularly with respect to their traditional export commodities, and the slow growth in the industrialized nations has led to very extreme difficulty on the ASEAN side.

I might note that I brought with me today the first-quarter statistics which bear this out, Mr. Chairman. U.S. imports from ASEAN actually declined by 23 percent in the first quarter. I think that is a reflection of some of the weakness in U.S. demand. Fortunately, our exports for the first quarter were up by 7 percent.

As to the fundamental importance of ASEAN, this is a group with a population of 256 million people and a GNP of nearly $200 billion. In addition, as was discussed by Ambassador Holdridge, it occupies an extremely vital strategic position astride sealanes, not only with respect to the Indian Ocean, but the supply lines to Japan for oil and for a great deal of trade in the area.

As noted in my testimony, they are very important suppliers of key raw materials and a very good environment for U.S. investment. As far as trade is concerned, as I mentioned, we had approximately $22 billion in two-way trade in 1981. That makes ASEAN our fifth largest trading partner. If you take the European Community as our No. 1 trading partner, ASEAN would be our No. 5 trading partner.

Of course, the Export-Import Bank is quite active in the area. President Nalen has pointed out also the activities of OPIC. So in addition, I think there is the beginning of a recognition of the need to participate in this area.

I might also note that U.S. investment is quite strong in ASEAN. The figure for foreign direct investment used by the Commerce Department is $5 billion. We have made an estimate in my office that the total investment might be closer to $10 billion in 1982. In this, we are estimating total U.S. investment, including the investment-type expenditures of U.S. oil companies in exploration and development of oil and gas production under production-sharing arrangements with Indonesia and Malaysia. This is not usually calculated in this manner, and we are going to be doing additional work on this. I have been concerned that the $5 billion direct investment figure may understate the degree of American involvement.

Finally, on the private sector side, I have outlined in some detail in my written testimony and would like to stress the role of the ASEAN-U.S. Business Council. In my view, this business council, which was set up as a consequence of the 1978 ministerial meeting here in Washington, has been a model of what can be accomplished by having governments on both sides encourage and facilitate contact between the business communities. They have quite an active program, in which they develop their own projects in direct cooperation between the business communities.

This has led not only to technology transfer, education, and understanding, but it has resulted in actual additional business deals, as the businessmen become acquainted with each other.

I think another important dimension of the ASEAN–U.S. Business Council is the fact that they make recommendations to governments. From our point of view, it is extremely helpful to have recommenda-

tions which come from the business community as to how the Government should proceed in the area.

With respect to government-to-government consultations, since 1977, we have had economic dialog with the ASEAN nations as a group—the so-called ASEAN-U.S. Economic Dialogue. In these meetings, we review the multilateral or international issues of mutual concern, as well as the bilateral issues, problems, and programs that we have.

I think what is most important in these meetings is the degree of candor with which we discuss the issues. This was particularly noticeable in the last meeting, where I had the pleasure to chair the U.S. delegation. We had a very detailed discussion of ASEAN's concern about tin, and of course about the Caribbean Basin Initiative, and their concerns over the possibility of graduation from GSP.

We were able to explain the U.S. position thoroughly. I included in my testimony the joint press statement issued at the end of that meeting, which I think is instructive as to the kind of dialog that we had.

Finally, I want to note that there have been some intimations that perhaps ASEAN is not a very strong economic organization because it is not proceeding the same way the European Community has proceeded in terms of fulfilling the requirements of the Treaty of Rome. ASEAN takes a different approach, a sui generis approach, and I think we should perhaps judge ASEAN on the basis of the achievement of the five countries in terms of their economic growth and dynamism, rather than on an abstract model of what we believe they might be achieving or should achieve.

I think according to those criteria, based on the resources that they have, the economic leadership that they have developed and the strength of the private sector, they will continue to be an area of very strong economic growth. And furthermore it is an area and a grouping with which the United States can work and should work very closely to support peace and stability in Southeast Asia. It is very much in our national interest.

Thank you, Mr. Chairman.

[Mr. Albrecht's prepared statement follows:]

PREPARED STATEMENT OF ANTHONY C. ALBRECHT

Mr. Chairman, I am pleased to be with you today to discuss our economic relations with Southeast Asia. Our ties with ASEAN are increasing in importance as our economic interdependence with this dynamic region expands and demands priority attention.

Our contacts with the Burmese government have expanded significantly since our cooperative narcotics program began in 1974. AID programs, beginning in 1980, have further expanded these contacts at the same time that Burma has been refusing lucrative approaches by the Soviet Union. Although we do not expect a change in Burma's basic commitment to neutrality, it is in our interest to encourage a continued, quiet Burmese opening toward the United States and the West. Brunei, a small, oil rich country on the north coast of Kalimantan (Borneo) will become fully independent next year, and will probably be invited to join ASEAN at that time. With respect to Vietnam, the United States has actively cooperated with the ASEAN efforts to restrict multilateral development aid so long as Vietnamese forces continue their occupation of Cambodia.

U.S. ECONOMIC RELATIONS WITH ASEAN

Since its establishment in August 1967, the Association of Southeast Asian Nations (ASEAN), comprosing Indonesia, Malaysia, Singapore, the Philippines and Thailand, has emerged as a growing economic and political force in South-

east Asia and on the world scene. ASEAN's announced goals are to strengthen regional cohesion and self-reliance while promoting economic development. The organization developed slowly during the first decade of its existence due to the diverse background of its member states and the competitive nature of their economies. By it gained rapid momentum following the first Summit Conference of ASEAN leaders in Bali in 1976. Since that time its political cohesiveness has strengthened and regional cooperation activity greatly expanded. Our cooperation with ASEAN on Kampuchea has become especially important.

Agriculture and the production of basic commodities remain the principal economic activities in ASEAN, with the notable exception of the highly industrialized city state of Singapore. As a result, commodity market issues such as price stabilization and market growth are of vital importance. Tin, natural rubber, vegetable oils, tropical timber and sugar are especially important. Our decision not to join the Sixth International Tin Agreement and GSA sales of excess tin stocks have become especially contentious issues over the past year.

The real annual GNP growth of over 7 percent over the past decade has earned ASEAN a well deserved reputation as one of the most promising growth areas in the developing world. The private sector has played a key role in this economic dynamism. The ASEAN countries recognize that private enterprise must be involved in the development process and that foreign investment should play an important role. ASEAN looks to the United States, as well as to other developed nations, for support and cooperation in providing market access, investment capital and economic assistance to help promote its economic development goals.

The ASEAN nations now must cope with lagging sales of export commodities, increasing costs in financing investment and slower growth in the OECD countries. ASEAN needs a prosperous and open U.S. market if it is to continue to grow—but we also need ASEAN for vital raw materials, as a growing market for U.S. exports, and as an attractive home for U.S. private investment.

IMPORTANCE OF ASEAN

The population of ASEAN is about 256 million people, comparable to that of the United States and Canada combined. Estimated per capita GNP's range from $420 in Indonesia to $4,480 in Singapore. ASEAN's total GNP is nearly $200 billion. It is rich in natural and human resources and occupies a key strategic position astride vital sea lanes.

ASEAN countries are important suppliers of essential U.S. Imports. For example, in 1980, 89 percent of our natural rubber, 65 percent of our tin, 6 percent of crude petroleum, 28 percent of our hardwood lumber, as well as 99 percent of our palm oil and 95 percent of our coconut imports came from ASEAN. Most of our tantalum/niobium and much of our tungsten is imported and the region is a vital supplier of these minerals. But ASEAN is not only a source of key resources needed by the United States to assure our security and prosperity. ASEAN is likewise an important and rapidly growing market for a wide range of U.S. machinery, chemicals and foodstuffs. Thus in 1981 our exports reached nearly $9 billion, an increase of 30 percent since 1979. Total two-way U.S. trade with the ASEAN countries was about $22 billion last year, making ASEAN our 5th most important trade partner. Total trade has more than doubled since 1977. The U.S. Export-Import Bank, with an exposure of over $2 billion, has fostered increased exports to ASEAN.

The ASEAN countries appreciate that their economic advance requires close cooperation with and financial support from foreign investors. We estimate that total U.S. investment in ASEAN, including the expenditures of U.S. oil companies in exploration and development in oil and gas production-sharing arrangements with Indonesia and Malaysia, now amounts to about $10 billion.

ASEAN-UNITED STATES BUSINESS COUNCIL

Because all of the ASEAN governments perceive a major role for business and strive to foster it, cooperation within ASEAN and with the international business community has grown rapidly. The ASEAN Chambers of Commerce and Industry are playing an increasingly important role in ASEAN. The ASEAN-U.S. Business Council, which joins the business communities of the United States and ASEAN in the fostering of trade, investment and cooperative projects, has given a new and important dimension to our relationship with Southeast Asia. We look increasingly to the Council to help promote closer ties with ASEAN

and consider its activities to be an important complement to the official dialogue. Recognition of this role was emphasized by Secretary Haig in his address before the UN General Assembly last September when he pointed out that the "ASEAN-U.S. Business Council is a model of how our private sectors can work together for mutual benefit."

We will continue to support and encourage the Business Council. It carries out activities and programs which governments cannot do, especially in the fields of training and technological transfer. It also fosters direct contacts and cooperation between business people which results in increased trade and investment and greater understanding.

Since its establishment in July 1979 the Council has undertaken various programs which have increased the flow of information, people and ideas between the United States and ASEAN. Among the more notable accomplishments were an ASEAN-U.S. Seminar on Science and Technology for Development held in Singapore in October 1980; and a Seminar on ASEAN-U.S. automotive developments held in Detroit in June 1981. Working Groups on Technology, Education and Training to facilitate technology transfer between the United States and ASEAN have been formed, and a financial conference was held in Kuala Lumpur in November 1981. We look forward to the fall meeting of the ASEAN-U.S. Business Council which will bring about 100 of ASEAN's leading business figures to Washington. A brief description of the Business Council is attached as Annex I.

CONSULTATIONS WITH ASEAN

The United States has found that it works well with ASEAN and that we are able to cooperate to promote economic growth and to solve mutual problems because our approach to most basic economic issues is similar. At the June 1981 meeting of ASEAN Foreign Ministers, Secretary Haig stressed that U.S. policy toward ASEAN rests on three important commitments: To economic development and commerce for mutual benefit, to fruitful bilateral relations, and to a genuine dialogue between equals on matters of common concern. Indeed the term "Dialogue" has been the name given to the special kind of relationship ASEAN carries on with its major world partners. Our economic Dialogue with ASEAN is a continuous operation at all levels. Since 1977 the United States and representatives of the ASEAN nations have had four formal meetings at Ministerial or sub-Ministerial level to discuss common concerns and to seek solutions to problems in the economic, social and cultural spheres. Unlike many international conferences, our ASEAN dialogues have been characterized by straight talk and an honest attempt to deal with issues that trouble both sides. For example, at the recent March 1982 Dialogue in Washington, ASEAN representatives clearly and frankly told us of their serious concern over our GSA tin disposal policy and the new Caribbean Basin Initiative (CBI). On tin, we were able to offer further consultations, and we are willing to discuss modification in GSA sales practices that may go some way to meet their concerns. On the CBI, we explained U.S. goals carefully and tried to reassure them that their interests would not be neglected in the pursuit of our Caribbean efforts.

That meeting also reviewed our cooperative regional development assistance program with ASEAN, as well as special educational/cultural exchanges. We now cooperate to enhance regional institutions in areas of non-conventional energy, tropical medicine, plant quarantine, and agricultural development planning. We are looking at the possibility for new ways to cooperate such as in marine science and to promote small and medium scale industry. A copy of the Joint Press Statement of the March 1982 ASEAN-U.S. Dialogue is attached at Annex II.

Because the nature of ASEAN as an organization may not be fully understood. I want to conclude with a brief view of how it operates and where we perceive ASEAN to be going. Most importantly ASEAN should be seen as a pragmatic, cooperative organization that is sui generis. It is not like the European Community, and its success should not be judged by criteria applied to the EC. It has a wide variety of cooperative economic and technical activities and joint industrial projects and there are increasing efforts to lower trade barriers within ASEAN. ASEAN functions mainly through regular meetings of its Foreign Ministers and Economic and other Ministers, through national secretariats in each of the Foreign Ministries, and through a series of technical intergovernmental committees in areas such as food and agriculture, finance and

banking, and industry, minerals and energy. There is a small ASEAN Secretariat in Jakarta, but the governments have until now strictly limited its size and role.

The ASEAN Secretariat and most of the committee structure is focussed on the original non-political goals of the organization as outlined in the ASEAN Declaration of 1967: Fostering of collaboration in "economic, social, cultural, technical, scientific and administrative fields." In addition, ASEAN government representatives have tended to work together as a group to formulate common positions in UN and other international fora on issues such as commodity policy, global negotiations, refugees and Kampuchea. Their ability to take common positions has been a source of enhanced strength and influence for the ASEAN nations. Though clearly associated with the so-called "Third World" group, the ASEAN countries have tended toward a moderate role on most North/South issues, a factor of great interest to us as we strive for their resolution. ASEAN has also operated as an effective unit and enhanced its bargaining power by establishing bilateral economic dialogues with third countries such as the United States, Japan, Australia, New Zealand, Canada and with the EC.

ASEAN's future seems bright. ASEAN's rich resource base and its proven economic vitality and success make it a leading candidate for strong economic growth in the next decade. While there are no major proposals for an economic union of the five, ASEAN Economic Ministers have agreed recently to study establishment of an ASEAN-wide free trade area.

But regardless of what organizational forms it takes and how cooperative efforts evolve in ASEAN, we feel confident that the ASEAN-U.S. economic relationship will continue to be one of increasing interdependence. There will be problems typical of any close relationship. In a period of slower world growth, there will be protectionist pressures on both sides, which must be resisted. However, in the light of our shared goals and our common interest in an open world economic system and our common approach toward peace and stability in Southeast Asia it is in the U.S. interest to continue to support the demonstrated independence, self-reliance and economic dynamism of ASEAN.

Annex I

Description

The ASEAN-U.S. Business Council was established in 1979 at the request of the respective governments to enable ASEAN and U.S. business leaders to conduct an effective and continuing dialogue on bilateral economic relations, to provide a mechanism for identifying policies which would strengthen commercial ties, and to stimulate two-way trade and investment. The Council is cosponsored by the Chamber of Commerce of the United States and the ASEAN Chambers of Commerce and Industry (ASEAN CCI).

The five countries of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Philippines, Singapore and Thailand—have achieved economic growth rates averaging 7 percent per annum and represent the fifth largest U.S. trading partner, with U.S. investment over $5 billion in the region and two-way trade reaching nearly $30 billion in 1981.

William E. Tucker, Chairman and Chief Executive Officer of Caltex Petroleum Corporation, is Chairman of the Council's U.S. Section which consists of 70 senior management executives of U.S. firms active in the region. The Chairman of the ASEAN Section is Fred J. Elizalde, President of Central Azucarera de la Carlota in the Philippines. Mr. Elizalde is also President of the Philippine Chamber of Commerce and Industry.

The Council's current work program includes (a) preparation of an exporter's handbook on the U.S. GSP System for the use of ASEAN firms; (b) development of a management training program; (c) convening of an ASEAN-U.S. Finance Conference last November; (d) preparation of market profiles on ASEAN products with potential for export to the United States; (e) copublication with the Department of Commerce of a Guide to doing business in the ASEAN countries; (f) promoting cooperation between the nineteen ASEAN industry clubs and counterpart U.S. trade associations; and (g) ongoing consultations with relevant U.S. government agencies and the Congress on the full range of ASEAN-U.S. economic issues.

The Council sponsored a recent seminar on doing business with ASEAN and a joint Executive Committee meeting, both in San Francisco. An ASEAN-U.S. Automotive Seminar was also held in Detroit under Council auspices.

The third meeting of the full Council was held in Kuala Lumpur, November 18–20, 1981. The session was cosponsored with the ASEAN Banking Council and devoted special attention to strengthening ASEAN-U.S. financial cooperation.

The Council's next meeting will be held in Washington, D.C., November 10–12, 1982.

Annex II

Fourth ASEAN-U.S. Dialog

The fourth meeting of the ASEAN-U.S. Dialog took place in Washington, D.C., U.S.A., from March 9 to March 11 in the Department of State.

The ASEAN delegations were led by H.E. Atmono Suryo, Director-General, ASEAN—Indonesia, H.E. Mohd. Yusof bin Hitam, Director-General, ASEAN–Malaysia; H.E. Vicente B. Valdepenas, Jr., Deputy Minister of Trade and Industry, Philippines, and H.E. Sime D. Hidalgo, Director-General, ASEAN—Philippines; H.E. Punch Coomarasawamy, Ambassador of Singapore to the United States; and H.E. Vudhi Chuchom, Director-General, ASEAN—Thailand. H.E. Vicente B. Valdepenas, Jr., leader of the Philippine Delegation, was the ASEAN spokesman. H.E. Narciso G. Reyes, ASEAN Secretary General and members of his staff were also present.

The U.S. Delegation was led by Anthony C. Albrecht, Deputy Assistant Secretary of State for East Asian and Pacific Affairs. The U.S. Delegation was made up of representatives of the Departments of State, Commerce, Treasury, Agriculture, the U.S. Trade Representative, AID, Council of Economic Advisors, OPIC and Export-Import Bank.

The meeting opened with a welcoming statement by Walter J. Stoessel, Deputy Secretary of State. The Deputy Secretary reaffirmed the close and friendly ties between the United States and ASEAN, the increasingly prosperous effective grouping of five nations in Southeast Asia. Secretary Stoessel went on to state that this administration is determined to continue the high level of cooperation, friendship and openness which has been established with the ASEAN states. The dialog process has helped ASEAN achieve some very impressive accomplishments, including concrete and practical improvements in the economic and commercial relations between ASEAN and the United States. Regarding the role of the private sector, the ASEAN-U.S. Business Council is proving to be most important in promoting long-run economic progress and increased trade and investment.

Anthony C. Albrecht, Deputy Assistant Secretary of State for East Asian and Pacific Affairs and head of the U.S. Delegation, in introductory remarks noted the importance of ASEAN as the fifth largest trading partner with the United States, the total trade having reached $22 billion in 1981 and that U.S. investment in the region was now over $5 billion with more to come. He referred to $2.2 billion in EXIM loans and guarantees over the past five years. OPIC has provided $315 million of insurance on 16 projects in ASEAN.

Dr. Vicente B. Valdepenas, Jr., as the ASEAN spokesman, welcomed the Fourth Dialog as an opportunity for both the United States and ASEAN to resolve their common concerns and hoped that the Dialog would further strengthen the partnership between ASEAN and the United States.

Both sides noted with satisfaction the progress of the ASEAN-U.S. Dialog as evidenced by the expanding development cooperation program, cultural, educational, joint narcotics control activities, and the increasing flow of technicians and officials between the two sides.

INTERNATIONAL ECONOMY

There was a wide-ranging discussion of the issues facing the world economy. Particular reference was made to the importance of revitalizing the U.S. economy in order to restore the prosperity and the growth of the world trading system, including the ASEAN area. The United States welcomed the continuing vigorous growth exhibited by the ASEAN economies, expressing the view that the role of the private sector was one of the major elements in their prosperity.

The ASEAN side reassured the U.S. side that ASEAN states have always taken a positive attitude in searching for a healthy international political and economic environment. However, the ASEAN delegations expressed concern over certain recent developments such as the U.S. policy on commodities of interest to

ASEAN particularly tin and sugar; on the Integrated Programme for Commodities (IPC); U.S. Policy on Multilateral Development Banks (MDB's); ECDC activities; and the U.S. position on Global Negotiations. Nonetheless, ASEAN is hopeful that the spirit of genuine cooperation and meaningful consultations fostered at the Cancun Summit, which has characterized the ASEAN-U.S. Dialogue and its activities would result in mutually beneficial and cooperative endeavors.

TRADE AND COMMODITIES

Both sides discussed the results of the MTN including the reduction of tariffs and the agreements on non-tariff measures. Both sides noted that slow economic growth and unemployment led to rising protectionist sentiment in many countries and pointed to the advantages of maintaining an open international trading system and the need to resist protectionist trends.

Both sides referred to the importance of the upcoming GATT Ministerial Meeting and view it as a forum to improve the multilateral trading system.

The ASEAN side expressed appreciation for the U.S. GSP scheme which has benefitted ASEAN exports, particularly of manufacturers and welcomed the U.S. efforts to further improve the scheme as well as assist ASEAN countries in better utilizing the scheme. The ASEAN side further stressed the importance of making the GSP scheme a permanent feature of the U.S. trade policy.

The ASEAN side emphasized the importance of basic commodity exports in their respective economies. They expressed their concern at the slow progress of the Integrated Programme for Commodities (IPC) in the establishment and operation of effective international commodity agreements which will contribute to the stabilization of prices. The ASEAN side reiterated their strong concern with regard to GSA release of tin onto the world market. The U.S. side recognized the views of ASEAN on commodities and reiterated its policy of support for a case-by-case approach toward commodity matters. The United States cited its active participation in the International Natural Rubber, Sugar and Coffee Agreements. The U.S. side felt that GSA sales had not disrupted the tin market but expressed its understanding of the ASEAN concern with regard to GSA sales of tin and in this context offered to hold special consultations with ASEAN countries. At the same time the U.S. Government wished to assure tin producers that it would cooperate with the Sixth ITA and expects that consumers and producers would join even though for well-known reasons the United States would be unable to participate in the Agreement.

The ASEAN side expressed serious concern on the possible adverse effects of the Caribbean Basin Initiative on ASEAN exports to the United States, in particular sugar, a substantial portion of which have been subject to full tariff duties and fees not only on account of their being ineligible under the U.S. GSP but also due to the U.S. Sugar Price Support Program. The ASEAN side believed that the tariff benefits that would be accorded beneficiary sugar exporting countries under the CBI would result in a competitive disadvantage for ASEAN sugar exports. The U.S. side indicated that an objective of the overall CBI is to encourage diversification away from sugar and that the United States does not expect that Caribbean sugar exports to the United States will rise significantly above historical levels.

INVESTMENT AND FINANCE

Both sides recognized the vital role of private capital in economic development and stressed the importance of maintaining a favorable investment climate.

The ASEAN side requested the United States to facilitate ASEAN's efforts to raise financing for their development projects, to organize investment seminars, and to undertake other measures to promote U.S. investment in the ASEAN countries. On financial cooperation, ASEAN requested the United States first, to encourage U.S. financial institutions to work on ASEAN industrial project financing; second, to make available technical expertise of financial issues; third, to organize programs such as seminars, study tours and on-the-job training to assist ASEAN access to the U.S. capital market; fourth, to organize study tours or training programs on insurance; and finally, to encourage the U.S. Export-Import Bank to continue its efforts to promote ASEAN development.

The U.S. side indicated that they understood and supported the economic development objectives which underlay these proposals, and they would give serious consideration to them. In particular, regarding seminars, investment missions and feasibility studies the United States agreed to make further proposals. The U.S.

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representatives pointed to the programs of several U.S. Government agencies—including the U.S. Export-Import Bank, OPIC, the Department of Commerce, Agency for International Development, and the Trade and Development Program—which are active in the ASEAN region in support of U.S. investment. The EXIM Bank has sizeable commitments in the ASEAN region and is prepared to increase these commitments. Similarly, the United States noted that OPIC had been active in providing insurance, loan guarantees, and feasibility studies grants in the ASEAN area; still there is considerable scope for expansion of OPIC activities in the region.

ASEAN–UNITED STATES COUNCIL

Both sides welcomed the special presentation closely related to trade and investment issues made by Mr. William E. Tucker, Chairman of the U.S. section of the ASEAN–U.S. Business Council. His reference to the training and technology transfer opportunities offered by U.S. firms for the ASEAN area was welcome. Both sides considered that the possibility of future participation by private sector representatives in appropriate Dialogue sessions, by invitation, would be desirable.

DEVELOPMENT COOPERATION

Both sides expressed satisfaction with the progress made in six ongoing ASEAN–U.S. development projects in the fields of agriculture, energy, public health, and academic training and research. ASEAN–U.S. projects are now underway or planned in all five member countries.

The growing success of the cooperation between ASEAN and the United States with AID funding was underlined by the signing of the seventh project agreement between the USG and ASEAN during the Dialogue by AID Administrator M. Peter McPherson on behalf of the United States, and Ambassador of the Republic of Indonesia to the United States, D. Ashari, on behalf of ASEAN. The Agreement provides $1.0 million of AID assistance over three years. This is the second energy project between ASEAN and the United States in the very important area of energy planning and development.

The first ASEAN–U.S. development cooperation agreement was signed in 1979 and since then AID has committed $16.5 million in economic assistance to ASEAN regional projects.

Other topics discussed during the meeting included Narcotics Control, Cooperation in Science and Technology, Agriculture, Education, Cultural Affairs, and Shipping. On ocean shipping policy ASEAN requested the U.S. Government to approve as soon as possible its proposed legislation to exempt the shipping lines of developing countries from being classified as controlled carriers. Both sides agreed to study carefully the proposals and suggestions exchanged in the various fields during these discussions with the aim of strengthening ASEAN–U.S. cooperation.

Senator HAYAKAWA. Thank you, Mr. Albrecht.

Ms. du Pont, would you care to proceed?

STATEMENT OF HON. ELISE R. W. du PONT, ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. DU PONT. Thank you, Mr. Chairman. I am pleased to appear today before this subcommittee, and I would like to give you a summary of my prepared remarks which already have been submitted, and I ask that they be integrated into the record.

Senator HAYAKAWA. They will be printed in full in the record.

Ms. DU PONT. Ours is a new program at the Agency for International Development [AID]. Our mission is to encourage the growth of private enterprise worldwide. We believe it is the engine for growth and that it can be the appropriate mechanism for development. We expect to use the United States private sector in that process. Our focus will be the local private sector.

The program is based on the belief that if you give a man a fish you feed him for a day, but if you teach a man to fish he will feed himself for a lifetime. Our approach will be that of a laboratory, limited in money, at least initially. We have in the last year incorporated a number of ongoing elements that existed within the Agency into our new program.

The first, with which you may be familiar, is the housing guarantee program, which provides a U.S. guarantee for U.S. financing of shelter in the developing world.

The second program that has been integrated into our new Bureau is the International Executive Service Corps, started by Frank Pace some 20 years ago, which brings to bear the skills of U.S. businessmen in the developing world. It is a business-to-business foreign aid program, which is operated on a fee basis and at almost no cost to the U.S. Government.

In addition, we have established a liaison role with the Trade and Development Program and with the Overseas Private Investment Corporation.

Our new Bureau, in the less than 1 year in which we have been active, has sent out a number of factfinding missions. I would like to focus my remarks, if I might on the mission to Thailand which I headed in February. The focus of the new Bureau is narrow in definition and we have therefore tried to focus our program in a small number of countries, at least initially. Thailand and Indonesia are two of those countries that come under this subcommittee purview.

We took a factfinding mission there. The purpose of the mission was to investigate the investment climate and the barriers to a free market economy that existed there, with an eye toward promotion of both local and U.S. investment in Thailand.

We were asked by the Thai Government to concentrate in five sectors: agribusiness, management training, capital markets, energy, and electronics. We brought a group of private sector experts in each of those areas to Thailand to conduct field investigations.

We brought Lowell Hoskins, who is president of Arbor Acres, Glastonbury, Conn., for the agribusiness area; Tracy Park, vice president of Tenneco Gas, who is incidentally a former AID mission director who served in Thailand 15 years ago; Prof. Margaret Graham, who is an assistant professor at Harvard University's business school, was involved in the management training area; Daniel Hefler, who is a semiconductor expert from the Arthur D. Little Corp. in Cambridge, Mass., also served on the mission. In addition, we had Ed Cooper, who heads Chase Manhattan's branch in Thailand, looking at the capital market situation for us.

On our arrival in Thailand, our schedule was coordinated and organized by the Thais, both the private sector and the Thai Government. They sent our participants out into the field to look at such areas in the farming community as poultry farms, rice and swine farms. In the energy area, they looked at gas facilities. And there was considerable study of management training institutions, among a good many other activities that the participants engaged themselves in.

I met with Thai officials at the ministerial level, as well as American Chamber of Commerce members. Our mission there was concluded when I spoke before the American Chamber in Thailand. We left be-

hind a design team. We have compiled considerable country reports that are available for both Thailand and for Indonesia, which we would be happy to make available to this committee should the committee be interested in having them made a part of the record.

That is a rough outline of one of our factfinding missions in your area, Mr. Chairman. I would like to move now, if I might, to the kinds of projects that we see ourselves becoming involved in. There are a number that are already on the table for this new Bureau that came into our Bureau when we added the components that I mentioned earlier. In addition, there are some new projects that will be coming on stream shortly which I might be able to outline for you on a hypothetical basis, as they are not yet completed.

With regard to the first category—those projects that are already on our plate—the International Executive Service Corps in Thailand, the group of retired executives who bring to bear their skills in the private enterprise area, has undertaken some 231 projects in Thailand since its inception.

There is a country staff of four people there, and we will be adding an agribusiness adviser since our focus in this program will be on the agribusiness area.

In the housing guarantee program area, there is a $50 million project under way in Thailand, which will be involving itself in slum upgrading and the construction of some 20,000 core shelter units.

The trade and development program, with which we have a liaison relationship, has had some 10 projects related to oil substitution in Thailand. And the Overseas Private Investment Corporation, headed by President Nalen who appeared before you last week, is planning an investment mission of private sector business leaders to Thailand in July as a consequence of the mission that we led earlier.

Upcoming activities, projects that we expect to be funding in the near future, which I would like to share with you and which comes as a result of our February mission, are as follows: First, we expect to execute a contract soon with the Young Presidents Organization to bring entrepreneurs from the United States into factories in Thailand.

Second, we will be having short-term management training seminars starting in mid-July.

Third, there are three projects of a proprietary nature, so I am not going to be permitted to discuss the terms and the names of the projects, and I hope the committee will permit me to do that. The first is a project related to a line of credit to a bank which would be "on-lending" in Thailand to small and medium-size agribusiness enterprises.

The second project that we seen coming onstream fairly soon is a seminar in the natural gas area which would cover the subjects of operation and maintenance.

And the third project, which is already completed. is a commodity futures trading study, which we could make available to the committee should you so desire.

In conclusion let me say that, although this is a new program, we believe it can be highly effective. It is designed to help meet the needs of the poor majority and in doing that to bring private enterprise to bear in the Third World and to use it as an element to promote development.

I thank you for allowing me to appear before you today, and I would be pleased to answer any questions.

[Ms. du Pont's prepared statement follows:]

PREPARED STATEMENT OF HON. ELISE R. W. DU PONT

INTRODUCTION

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to describe the activities of AID's bureau for private enterprise.

We believe that the program we are developing and are about to implement can have a long-range beneficial impact on economic progress in the developing world, including the area under the purview of this subcommittee. We are especially aware of this potential in the context of the interest of the countries of the Association of Southeast Asian Nations in strengthening their private sectors and in attracting investment from abroad.

I would like to outline our objectives and the major areas on which our efforts are focused, noting the bureau's significant role as a source within AID for new ideas. I would also like to indicate how our program differs from past AID activities, describe our project selection criteria, and explain our relationships with other internationally oriented agencies and organizations. Finally, my statement will touch on specific activities that relate to the East Asian and Pacific area. This will include activities of the housing guaranty program, a component of our bureau.

OBJECTIVES OF THE BUREAU

The bureau for private enterprise has two complementary objectives. First, our goal is to help strengthen the private sectors of developing countries—the enterprises and institutions that we view as the potential engines for self-sustaining growth in those countries. Second, we intend to involve the American private sector actively in that process.

The view of the private sector as a force for development is deeply rooted in this administration. President Reagan, in his speech to the International Monetary Fund last September, pointed out that those countries that have achieved the most dynamic economic progress in the shortest period of time have been those whose economies relied on "the magic of the marketplace." He repeated this theme in his meeting with Third World heads of government in Cancun, Mexico, stating: "History demonstrates that time and again, in place after place, economic growth and human progress make their greatest strides in countries that encourage economic freedom."

The encouragement of market economies and private enterprise in AID-assisted countries is the basis for the administration's private sector initiative. The establishment of the Bureau for Private Enterprise by AID Administrator M. Peter McPherson in July 1981 was structural evidence of that commitment.

Under this approach, we will seek to help put Third World nations on the road to self-supporting economies that generate jobs, income and higher living standards. We consider that these benefits resulting from a properly functioning market economy are essential to meeting the needs of the poor majority in developing countries. As such, we view our program as firmly in step with traditional development goals and one that supplements, reinforces and, indeed, strengthens AID's response to the focus on basic human needs that was mandated by Congress in 1973.

MAJOR AREAS OF BUREAU ACTIVITY

The Bureau has the lead role in bringing agency activity to bear on three areas. These are support of the indigenous private sector as a whole; the formulation and use of new financing methods; and the support of agribusiness development in Third World countries.

Let me describe these areas in turn.

First, we plan to work with host governments to provide the environment needed for private enterprise to function effectively.

These services come in three categories. One, we will help governments identify and remove bottlenecks to private investment, both indigenous and external. Two, we are prepared to provide financing for projects that help build the management and technical skills base necessary for vigorous private sector action. Lack

of these skills can be a significant constraint to development. Three, we will support the development or improvement of capital markets and other financial structures that generate savings and direct them into productive investments.

Improvement of the indigenous climate and infrastructure for private enterprise, it should be pointed out, has significant long-term benefit potential for the United States private sector as well.

While the creation of jobs and economic opportunity locally is our primary purpose, these efforts lead as well to the kind of economy that enhances developing countries as commercial partners. Namely, as strong, sophisticated markets for U.S. products and services and as hospitable locations for investments and joint venturing by U.S. companies seeking stable, risk-taking environments. In addition, the type of robust indigenous private sector we are trying to help develop will produce strong demand for loans from U.S. banks and other lending institutions, including financing in which AID can participate.

Second, the Bureau for Private Enterprise serves as a laboratory for the agency as a whole in testing new and cost-effective financing methods that leverage, or stretch out, tax dollars by attracting dollars from elsewhere—United States and indigenous private sectors, lending institutions, and multilateral organizations, such as the international finance corporation (IFC).

The IFC's experience in supporting private enterprise projects worldwide is one example of the kind of leveraging, or multiplier effect, we are seeking at AID. For example, the IFC has been successful over the years in attracting nearly four additional dollars from other sources for every investment dollar of its own.

The new financing methods we are prepared to use include direct loans to indigenous enterprises whose investments have a high development impact; loan participation with U.S. lending institutions (with AID taking the longer maturities); and the capitalization of private financial intermediaries.

In this latter case, we would provide lines of credit that would be matched by private host country institutions such as commercial banks in order to provide a fund for on-lending to private enterprises. Other examples are lines of credit and "seed" capital for leasing and venture capital firms. This mechanism is especially valuable in making available funds to small and medium-size enterprises that local capital markets are not now providing.

New financing approaches are uniquely applicable to our third priority area, agribusiness. The bureau's focus here complements AID's long experience in fostering agricultural production and research, in close cooperation with multilateral institutions, private voluntary organizations and host governments.

Bureau attention will be on marketing, processing and inputs to farmers, working with and through the private sector. We are prepared to provide the lines of credit just described to generate loans for small and medium-size agribusinesses, working through commercial banks, venture capital firms, and leasing firms. Leasing is an effective option for farmers who cannot afford to buy equipment and machinery outright. We would also provide direct lending to enterprises where the development impact is significant and the chance for replication good. We think the agribusiness emphasis will provide significant opportunities for the transfer of U.S. technological and marketing know-how to the developing world. In focusing on these three areas, we believe we will lay a solid foundation for a long-term program in AID aimed at building up indigenous private sectors and serving the poor majority of developing countries. In our "laboratory" role, the bureau intends to develop model projects that can be tested in the field and, if successful, used throughout the agency.

HOW THE PROGRAM DIFFERS FROM PAST EFFORTS

The bureau's program differs from past and present AID practices in at least six categories.

The first is our new focus on dealing directly with developing-country private enterprises and private institutions. AID's past activities, by and large, have been based on government-to-government relationships.

The second is the new financing mechanisms touched on earlier. We plan to provide loans to indigenous businesses both directly and through co-financing with U.S. financial institutions and private financial intermediaries in host countries. We also plan to use, for the first time in AID, convertible debentures as an instrument of assistance. Under this mechanism, we would advance money to an enterprise and take convertible debentures in return to provide support

during a period of greatest risk for the enterprise. When the enterprise is on its feet, we could sell these instruments to private investors.

The third major difference is our relationship to developing-country intermediaries, private organizations which AID does not normally deal with directly. In addition to financial intermediaries using our lines of credit for on-lending, we intend to support venture capital companies and leasing companies as noted earlier—new areas for AID.

A fourth difference is in our loan approach, which will not be concessionary in the traditional sense. Our participation is to make available funds for local entrepreneurs in cases of capital market deficiencies, such as when medium-term financing is not otherwise available. Our terms are designed to be consistent with a free and open market philosophy and to encourage competitive, self-sustaining indigenous enterprises.

A fifth difference is in project development. Under streamlined bureau procedures, businesses that propose projects to us design the project, put up the money and take the risks. This shortens lead time and reduces red tape.

Sixth difference is our focus on working with host governments to adopt policies that encourage private enterprise and change those that produce bottlenecks to private sector development. We plan to pursue this activity vigorously.

TARGET COUNTRIES

In order to use effectively our modest budget of $26 million for fiscal year 1982, we are concentrating our efforts on no more than 10–15 countries over the coming months. These are countries which are strategically and commercially important to the United States, that have viable private sectors supported by the host governments and where AID bilateral assistance missions are in place.

Of particular interest to this subcommittee is that Indonesia and Thailand are among these priority countries. Private sector teams assembled and led by bureau officers have gone on investment reconnaissance missions to identify both opportunities and constraints in eight countries, including Indonesia late last year and Thailand in early February.

So far as these priority countries are concerned, the Bureau for Private Enterprise works closely with AID's regional bureaus on obligation of funds and project development and implementation. Additionally, all bureaus are under new policy directives to identify and develop, where feasible, private sector programs in general. For our initiative to succeed, we believe we must ultimately rely on the regional bureaus to design and carry forward private sector programs in AID-assisted countries across the board.

BUREAU RELATIONSHIPS WITH OTHER AGENCIES AND PRIVATE ORGANIZATIONS

AID's Bureau for Private Enterprise has developed effective working relationships with other agencies involved with investment or trade matters affecting the developing world.

We have a complementary role, for example, with the overseas private investment corporation (OPIC), wherein our focus on indigenous private sector development merges well with OPIC's focus on investment opportunities for American firms. We meet regularly with OPIC to review matters of mutual interest. as well as with other U.S. agencies such as the trade and development program (TDP), office of the U.S. trade representative (USTR), and the Department of Commerce.

We also work with the U.S. Export-Import Bank, whose export financing activities complement activities of our bureau. And we have reviewed projects with the World Bank's International Finance Corporation (IFC) to find projects amenable to joint financing.

Since our establishment, the bureau has forged strong links with the American business and banking communities and has benefited from a continuing dialogue with corporations, lending institutions and associations.

In addition, we have formed working partnerships with a number of outstanding private sector organizations. The International Executive Service Corps (IESC), which recruits experienced executives, mainly retired, for short-term volunteer assignments abroad as advisers to local firms, has recently been transferred to our bureau for management purposes. We are encouraging IESC to expand its excellent technical and managerial assistance activities.

We are working with the Young President's Organization (YPO), made up of younger senior U.S. corporation executives, to provide a series of seminars, lectures and discussions on entrepreneurial problem solving in several target countries. We are working with business international to develop country specific information on laws, regulations and policies in developing countries that affect investment. The conference board, the well-known corporate research organization based in New York City, has agreed to provide information to us on U.S. multinational development activities, including problems encountered in specific countries, from its vast data base.

PROJECT GUIDELINES

Currently we are inviting proposals from agribusiness firms and lending institutions both in the United States and in the bureau's target countries. Three separate announcements have been entered for publication in the Federal Register and Commerce Business Daily, and are being mailed to a large number of prospective applicants for bureau financing.

One announcement, printed in the Federal Register and Commerce Business Daily on May 13, is directed to U.S. lending institutions with branches in target countries. It invites proposals in which bureau funds may be combined with the banks' own funds and with local investor funds for agribusiness projects with significant development impact.

American banks operating in our priority countries offer an important potential source for additional financing in local capital markets. In participatory loans, we would expect to provide the medium-term financing needed for the bank to become involved in what would otherwise be a commercially viable project. This underscores the bureau's role in acting as a catalyst for drawing resources to development projects that would not normally be forthcoming. The bank, taking the shorter maturities, would manage the credit just as it would for projects financed wholly with its own funds. We look on the American banking community as essential to our overall program. Experts from U.S. lending institutions have also been an important segment of many of our investment reconnaissance missions to target countries.

A second announcement is directed to indigenous agribusiness firms and intermediate credit institutions in the priority countries. It offers ether direct loans or, in the case of the intermediaries, funds for matching and on-lending, as described earlier. The announcement appeared in the Federal Register on June 1.

The third announcement is directed to American agribusiness conceras which are seeking joint ventures with indigenous enterprises in the target countries. Many of our financing projects will involve indigenous enterprises which joint venture back with U.S. firms, thus enhancing the transfer of skills and technology. The announcement was published in the Federal Register on June 1.

We are looking for projects with development impact in terms of generation of jobs, foreign exchange and technology transfer and of management and technical skills development. The bureau will participate as minority investor only, with a maximum participation of 25 percent of total project costs. We will provide loans up to $2.5 million maximum, with a preferable range of between $250.000 and $1 million. Grace periods and repayment schedules are negotiable.

The initial response to our announcements indicates a great reservoir of interest on the part of the U.S. private sector in participating in our effort. We are also reviewing many proposals which come to us directly or in the course of investment reconnaissance missions to priority countries.

BUREAU ACTIVITIES IN ASIA

As mentioned earlier in my statement, bureau reconnaissance missions have been sent to Indonesia and Thailand, looking specifically at the priority areas of climate and infrastructure for private sector development, financing through intermediate financial institutions, and agribusiness. We worked closely with the U.S. Chambers of Commerce in those countries in that regard. I shall be pleased to make reports on those missions available to this subcommittee.

Regarding mission followup, we have subsequently sent agribusiness consultants to Indonesia and Thailand to identify specific investment opportunities in that sector. In the case of Thailand, the survey was undertaken to support an OPIC investment mission to that country scheduled for July.

We have under review support for a venture capital firm and a leasing firm in Indonesia. We expect a request from Indonesia that the bureau provide

advisory services on capital markets. We also intend to provide advisers next month to look at short-term, high-impact management training programs.

In Thailand, a project for an agribusiness investment fund in an indigenous commercial bank is under review. The International Executive Service Corps, at our request, is planning to add an agribusiness adviser to its staff in Thailand. In addition, we have arranged for the financing of a seminar on operation and maintenance of Thailand's natural gas complex. Now that our announcements have been released, we expect to receive a number of proposals, particularly in agribusiness.

The Young Presidents' Organization has agreed to conduct its management seminars for us in both Thailand and Indonesia.

Acting on a desire by the Government of Thailand for information about establishment of a commodities futures market, the bureau for private enterprise funded a study by the E. F. Hutton Company. Basically, it recommended measures to strengthen the domestic marketing situation. Incidentally, the study was drawn upon by the Cancun initiative team of agricultural experts that has just returned from Thailand. David Flood, who conducted the E. F. Hutton study, was recommended by our bureau for a fellowship awarded by the council of foreign relations. In that context, he will work closely with AID and the World Bank over the next year on commodity price-risk management in the general Southeast Asia area.

I would also mention that the trade and development program, allied with AID under the umbrella organization, the International Development Cooperation Agency, has been very active in Thailand, Indonesia, Burma and the Philippines. As you know, TDP plays a unique role in fostering progress in developing countries while promoting the export of U.S. goods, services and technology. A representative of TDP is present at this hearing and available to report on country-specific programs in Asia if the subcommittee so desires.

THE HOUSING PROGRAM IN ASIA

An important component of the bureau for private enterprise is the Housing Guaranty (HG) program. This program provides another example of how the United States and indigenous private sectors work together in development. Among the AID-recipient nations of immediate concern to this subcommittee, Thailand alone has an active HG program.

Generally speaking, the HG program finances shelter projects meeting normal AID development criteria. It differs from most AID programs in that the actual financing comes from loans from private U.S. credit markets. AID guaranties repayment of loans to approved projects and, through fees collected from host-country borrowers, pays the operating expenses of the program. To date, the program is self-sufficient. It uses no congressionally appropriated funds.

The Housing Guaranty program introduces indigenous borrowers to the U.S. credit markets where project financing is assembled and where, eventually, long-term banking and trading relationships may be established. Where, as in Thailand, housing finance institutions are the object of AID's assistance, the guaranty program provides the services of U.S. housing finance experts. One U.S. expert who has served as an AID financial adviser and has influenced housing finance policy in Southeast Asia is Richard Pratt, now serving as the administration's appointee as chairman of the Federal Home Loan Bank Board.

Thailand's national housing authority has been developing strategies less dependent on subsidies for incorporation into an overall plan focusing investment in slum upgrading and core housing projects that can be expanded. Representing a major policy shift, the program is aimed at delivering shelter and services at costs affordable to low-income groups and reducing subsidy levels considerably, thus spreading the investment over a greater number of beneficiaries. AID's $50 million housing guaranty, authorized in 1979, directly supports this program. Our guaranty loan will finance about 50 of the upgrading projects, 30 percent of the core housing projects in Bangkok, and 50 percent of parts of the program for regional cities. World Bank and Asian Development Bank Funds are also involved in the housing authority program.

A central policy message of the housing guaranty program is that the private sector, not government, should build houses for low-income people and that the public sector agencies should use their limited resources to provide only that which the private sector cannot, such as potable water, sewerage, and roads. Consistent with this policy, AID is currently developing a project in Thailand under which private developers will be encouraged to move into the low-income

housing construction field. As in the United States, the government of Thailand will take actions in the area of finance to stimulate the private sector.

CONCLUSION

To summarize, AID's private sector initiative is designed to meet the critical and fundamental needs of supporting self-sustaining private enterprises in developing countries. We will finance projects that generate jobs and income and that develop and upgrade skills needed for a productive local private sector economy. We believe that this approach combined with more traditional AID approaches, can help provide momentum to break down barriers that have denied the majority in the developing world access to a better life.

Our three-fold thrust focuses on the host-country environment, new methods of financing that enlist the energies and resources of the U.S. private sector and on agribusiness as a source of jobs, income and skill-upgrading, each thrust consistent with the basic human needs focus of AID. It is a program that will advance development and, in doing so, build markets for U.S. goods and services and open up opportunities for profitable joint ventures by American and indigenous entrepreneurs.

I greatly appreciate the opportunity to participate in these hearings and will be pleased to answer any questions you may have. Thank you.

Senator HAYAKAWA. Thank you, Ms. du Pont.

Mr. Bohn, would you please proceed?

STATEMENT OF HON. JOHN A. BOHN, JR., U.S. EXECUTIVE DIRECTOR, ASIAN DEVELOPMENT BANK

Mr. BOHN. Thank you, Mr. Chairman. I have submitted a written statement which I hope will be received for the record.

Senator HAYAKAWA. Thank you. Your entire statement will be printed in the record.

Mr. BOHN. Thank you. I am particularly pleased to be here today to be given this opportunity to give wider exposure to a comparatively little-known organization which in my judgment is a very important one in terms of our economic and commercial interest.

The Bank itself is owned by 45 countries, and the United States and Japan each share a 16-percent equity interest. That is to say, Japan has 16 percent and we have 16 percent of the capital. It is administered by a president and a board of 12.

One of the easiest ways to think of how the Bank functions is to divide it into its hard loan window and its soft loan window. The soft loan window, or the Asian Development Fund [ADF], really relates to lending to the South Asian countries. By far the largest percentage of these funds go to countries like Pakistan, Bangladesh, and Nepal.

The hard loan window, the Asian Development Bank [ADB] proper is dominated by loans to four of the ASEAN countries. I think Mr. Albrecht has quite dramatically demonstrated to us here the importance of ASEAN in our own international interest.

It is important, however, to note that the role of the Bank in the region is really quite small when compared to the overwhelming importance of private capital flows. The Bank itself provides some 3.5 percent of the foreign exchange brought into the area. Even if you take all of the multilateral banks and all of the funds, that together represents only 29 percent. By far the largest part of the activity which has been alluded to heretofore is a result of private trade and investment.

It is important also to note that the loans made by the Asian Development Bank constitute only about a third of the total value of the proj-

ects which are implemented as a result of those loans. Of the remaining two-thirds, roughly 85 percent of the funds are provided by the countries themselves from their own domestic resources. A recipient country's own economic performance and their own priority plans and their own domestic policies provide a very important part of the teamwork between ADB and themselves.

With that as a background, I would like now to focus on how the Bank relates to the private sector and particularly to U.S. business. Of the Bank's activities, agriculture and agribusiness represent about 32 percent of its lending. Energy represents about 29 percent; social infrastructure, about 21 percent; and the development banks, that is to say Asian Development Bank funding for the indigenous development finance institutions, represent about 12 percent. It is through this latter vehicle that the Bank makes loans directly available to the smaller and medium-sized private enterprises in this area.

U.S. business performance, however, I am afraid is somewhat disappointing. Of the total procurement possible over the period that the Bank has been in existence, the United States has been able to gather only about 7.3 percent or some $327 million.

It is interesting to note that in certain areas, however, U.S. business does very well. In the technical assistance area, the United States gets about 18.5 percent of all of the contracts that are let. In the case of the consulting services, the United States is far and away the largest, with about 21 percent.

What is worth noting, Mr. Chairman, is that of the supply contracts which are actually bid on by American firms, we win about a third. So one of the areas that I think is very important is to increase the awareness of the procurement possibilities under the Asian Development Bank programs for American business, because when American business does, in fact, bid it does very well indeed.

It is important also to note that these figures have a very large—20 to 25 percent—unknown factor. Of the total procurement dollars, about 25 percent are unknown with respect to source of goods supplied. My sense of it—and I think it is the sense of the Bank management—is that some substantial part of this unknown amount also accrues to American business from purchases through affiliates, subsidiaries, and joint ventures of American companies.

In our offices at ADB, my staff and I spend a great deal of time talking with visiting businessmen and corresponding with American businessmen and consultants who have inquiries about the Asian Development Bank.

When we are here, we visit with business groups throughout the country, explaining procedures, talking about procurement, going through the different areas which we think hold promise, and where we think the Bank and American business have a common interest.

There is available from the Bank on a monthly basis a publication for $28 a year, which gives a very good up-to-date summary of the projects the Bank is considering. Indeed, the Commerce Department from time to time publishes in its newspaper various activities and proposals which the Bank is considering.

There are two particular areas to which I would like to draw your attention if I might, Mr. Chairman, that are relatively new as far as the bank is concerned. As you know, we are in a time of economic tur-

moil and stringency, and the Bank is looking within itself to make a better use of the funds and resources that it has. One of the tools which it is beginning to develop and I think is seriously along the way is cofinancing.

The concept of cofinancing is a fairly simple one. The bank will put some dollars into a project and then will go to the marketplace to bring other resources into the region. An example might be a project in the energy sector where the Asian Development Bank will have looked very thoroughly at it, found the project to cost about $100 million. The bank will declare its intention to put perhaps $50 million and will assist the recipient government in raising the other $50 million from the international capital markets.

Immediately preceding the last annual meeting in Manila in April, ADB organized a full day seminar which attracted 190 bankers and export credit experts from around the world. The purpose of the seminar was to acquaint the private sector with the activities in this cofinancing area that the bank is undertaking.

The bank has created a separate department. They are working out the details, the different kinds of agreements that will be available. They recognize the need to be flexible, and they are moving ahead quite aggressively.

The second new consideration is the bank's proposal to go into the equity business. It is thought by a number of members of management and a number of members of the board that there is a very important niche for equity investment in the promotion of the private sector's evolution in a number of developing countries.

The particular niche that we see as making sense from the point of view of American business perhaps is a situation where an American company wishes to invest in a host country. For either international reasons or lack of experience or whatever there exists some degree of suspicion between the host country government and the investing company. With a small infusion of equity from a neutral entity like the Asian Development Bank, these tensions can be reduced and the investment go forward. We have had several comments already from potential investors that the procedure outlined would ease the entrance, both from the point of view of the host country and from the point of view of the foreign investor.

Both sides feel that they then will have in effect, though a minority partner, a partner nonetheless, who is committed to objectivity and has the interest of both sides at heart. We think this is an area where ADB, with its expertise in the area, and with its indigenous nature as an Asian institution, can provide, particularly in the lesser developed countries, that spark, that beginning push, if you will, toward an expansion of the private sector and mobilization of additional resources for development.

You have asked for a couple of suggestions, Mr. Chairman, on what we might do to increase the knowledge and effectiveness in getting business as far as Asia is concerned. One, of course, is very importantly the function of this committee, and again I join Mr. Albrecht in endorsing your activities here. The greater the knowledge of Asia that U.S. business has, and the wider exposure that Asia has, the more we can expect to increase our business in that area.

We must keep trying.

Regarding the trade and development program, I have heard personally from a number of people who come through my office that it is very well received. Also, we need American businessmen in the field. The tax changes last year I think have made a great difference, certainly in ADB, where we had lost almost all of the American staff and are now built up I think to a full complement.

Mr. Chairman, I think ADB is a very important institution. I very much appreciate the opportunity to be here. In a larger sense, the bank is really a means for planting and putting our philosophy to work in this area of development.

The ASEAN countries have demonstrated what dedication to the free market can do. I think the Asian Development Bank through its assistance, through working with these countries, can provide a very important bridge for American business. I applaud your efforts in this area.

Thank you.

[Mr. Bohn's prepared statement follows:]

PREPARED STATEMENT OF HON. JOHN A. BOHN, JR.

I appreciate the opportunity to come before you today to discuss how the Asian Development Bank serves U.S. interests—particularly, U.S. economic and commercial interests—in southeast Asia and the Pacific.

The United States had a central role in founding the Bank in the mid-1960's. Our motives then, as now, were, in large measure, our interest in the economic and political stability of southeast Asia, and our genuine concern for the millions of the world's poor located in that Region. Since then, many of these countries have dazzled the world with their growth and development. Largely as a result of market-oriented domestic police together with private sector trade and investment, this area now accounts for a larger proportion of our trade than the EC, and has some 11 percent of total U.S. foreign investment, approximately $22 billion in 1980. Twenty-five percent of our total Exim Bank exposure is in East Asia alone, and in 1980, 31 percent of our agricultural exports were channelled there, some $12.8 billion.

Successful development in the region has led to an evolving role for the ASEAN countries in the Bank. The economic and financial strength of Singapore has grown rapidly in recent years. As a consequence of Singapore's high standing in private financial markets and strong creditworthiness, Asian Development Bank lending to the city-state has been inactive in recent years in the interest of making resources available to less creditworthy members.

Similarly, the growing financial strength of Indonesia, the Philippines and Thailand means that these countries will soon phase out of borrowing from the Bank's soft loan window and rely exclusively on the hard loan window for Bank funding. Like Malaysia for several years, these three countries do not need the concessional support of interest-free, long-term loans and can carry on their Bank-supported development programs on the near-market terms of the Bank's hard window.

Our large trade and investment stake in the region place our economic and commercial concerns in the forefront of U.S. interests. As I hope to describe briefly, the Bank provides direct and indirect support to these interests.

At the outset it is important that the Asian Development Bank be seen in a proper perspective. Forty-five countries are shareholders, with Japan and the United States shaging the lead with approximately 16 percent each.[1] In its 15 years of existence, loans from the ordinary capital resources have amounted to some $7 billion. The largest recipients of these loans over the years are countries whose names and importance to the United States are known to you all: Indonesia ($1.40 billion, 21 percent), Korea ($1.37 billion, 20 percent), Philippines ($1.27 billion, 19 percent), and Thailand ($1.0 billion, 15 percent). Indeed, 75 percent of total bank commitments in 1981, some $863 million, went to four of the five ASEAN countries alone.

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[1] In order, the next three are: India, 7.7 percent, Australia, 7.0 percent, and Indonesia, 6.6 percent.

By contrast, loans from the Asian Development Fund, or soft loan window, go primarily to South Asian countries, except India which does not borrow. The Bank has approved over 500 projects, has loan commitments as of year end 1981 of some $9.8 billion dollars, and has borrowed some $3.1 billion from the world capital markets to fund its activities.

It is important to note, too, that ADB provides only 3.3 percent of all foreign exchange flowing into the region. Indeed, even including World Bank resources into Asia only 29 percent of foreign exchange inflows are provided from all multilateral agency sources. Far and away the largest inflows into this dynamic region are from private trade and investment. Therefore, in addition to providing direct loan funds for development projects, the Bank plays an important development role through technical assistance grants, and its in-house consultative expertise. By encouraging domestic policies in recipient countries which foster private sector development and a free market orientation, the Bank acts as a catalyst to improve the climate for foreign investment, and trade, thus adding to resource available for regional development. Finally, it should be emphasized that Bank lending represents the only foreign exchange costs, about 37 percent of total funding of a typical project costs. Of the balance, some 84 percent comes from the countries themselves, with the remaining 16 percent from cofinancing sources.

It is illuminating as well to look at ADB lending by sector from both windows.

	1967-81	1979-81	1981
Agriculture and agroindustry	28.7	32.6	32.3
Energy	25.0	27.2	28.6
Industry and nonfuel minerals	3.8	.9	.8
Development banks	13.4	10.7	12.2
Transportation and communication	14.0	9.5	4.3
Water supply	8.5	7.8	7.4
Urban development, education, health and population	6.6	11.3	14.5

Agriculture and agroindustry predominate, with energy a close second and moving up. Social infrastructure, too, occupies an important place, along with aid to the private sector through the development finance institutions.

Given this level of activity within the region, how has U.S. business fared in its dealings with Asia, particularly with respect to the ADB? Since its inception, the Bank has awarded some $4.3 billion in contracts, $3.7 of which have already been disbursed. In terms of direct contracts, U.S. business has received some $327 million, roughly 7.27 percent of the total. By contrast, Japan has obtained some 31.4 percent or about $1.4 billion, though it should be noted that despite our equal shareholding Japan is the largest single contributor providing cash payment of almost $1.9 billion or 32 percent of total cash payment. The United States is the second largest contributor having provided over $1 billion or 18 percent of total cash contributions. What remains more troublesome is that the U.S. share has remained roughly constant over the life of the Bank, rather than growing. Moreover, just behind the United States with substantially less financial commitment, comes Germany, with procurement valued at $238 million (5.3 percent), Italy, $143 million (3.2 percent), and India $123 million (2.7 percent).

In some areas, U.S. business does comparatively well. In technical assistance operations, the United States obtained some 18.7 percent ($14.6 million) of all contracts, followed by the United Kingdom, 13.9 percent, Japan, 10 percent, Australia, 6.3 percent, and India, 5.6 percent. In consulting services, U.S. business does even better, obtaining some 21 percent of all country contracts awarded, some $54 million, followed by Japan, 12.5 percent, United Kingdom, 9.7 percent, Canada 8.1 percent, Germany 8.0 percent and Italy 7.9 percent. Of some significance, moreover, are Bank estimates that of the goods and services contracts actually bid by U.S. business concerns, U.S. companies win about 33 percent. One should be aware that there is a large (22 percent) undetermined item in the sources reports and one can be reasonably certain that a substantial part of that is represented by goods and services from U.S. affiliates, subsidiaries, or joint ventures. The picture, therefore is not either black or white, but rather gray. What might we do to improve it?

I view an important part of my task as Executive Director to increase U.S. participation in ADB projects. I spend a substantial part of my time meeting

with U.S. business groups in Asia, and in meeting, and corresponding with U.S. businessmen who visit Manila. Recently, the Asian-Pacific Council of American Chamber of Commerce endorsed the creation of a U.S. Advisory Committee of its members to work with our office in this regard, both in developing information on projects and progress therein and in creating an awareness among U.S. businessmen of the opportunities in ADB projects. I visit with business and professional groups throughout the United States regularly to explain procurement rules, go over opportunities and hear complaints.

Equally important, there is a strong, new emphasis in the Bank on developing ways of co-financing with private financial institutions. We have strongly supported this idea and are very impressed with the Bank's vigorous pursuit of opportunities. Thus far, private institutions have helped to support only nine projects totaling $125 million out of total loans of $9.8 billion. But I expect this cumulative sum to grow rapidly in the coming years and to measurably add to the capability of ASEAN countries to tap private capital market and to provide opportunities for U.S. private financial institutions to invest in sound, well-targeted economic activities.

An even newer idea has been growing in the Bank in the last year or so: a program to provide equity capital to private firms in the developing members countries of the ADB. The program, patterned after the World Bank's successful International Finance Corporation, would funnel equity investments and some lending to private firms in developing countries.

Although U.S. firms would not benefit directly from this source of financing, the indirect benefit is potentially large. Strong private sectors in these countries, drawing financing from diverse sources, can become sophisticated and reliable customers and business partners. The ASEAN economies are reaching the level of complexity and sophistication where government support for business development can entail excessive restriction and regulation. A vigorous and independent private sector in these countries will be increasingly important to our commercial interests in the future. The ADB's equity program, if it comes to fruition, offers a sound instrument to strengthen the private sector. Perhaps most important, a minor equity participation by the ADB in a new project or industry should go a long way to mitigate the mutual suspicion that often exists at first between a foreign investor and a host country government or firm, hopefully facilitating more rewarding, "hassle-free" joint venture prospects.

You've asked for some suggestion in increasing U.S. business activity with ADB. Most of the suggestions can be more broadly applicable to increasing U.S. business in Asia, most of which you've heard before, I am sure:

—more knowledge by U.S. business of opportunities in Asia is required; the U.S. Chamber, Asean-U.S. Business Council and the Asia-Pacific Council of American Chambers of Commerce and others, are all doing their best, but we must keep trying.

—The trade development programs, giving U.S. business some support at the initial stages of project development, have been well received in the field and should prove helpful;

—We need American businessmen in the field. The tax changes made last year for expatriates have been enormously helpful, not the least in making it possible to recruit Americans in ADB senior staff positions.

—U.S. business should be encouraged to use U.S. embassy people where possible to put their case for participation in development projects to recipient governments. The recipient government makes the final selection, and while we can insist on integrity in the system of procurement, in the end the host country decides.

—If a businessman has a problem they should feel free to call or write us directly. We cannot influence the bank in favor of particular company. But my experience indicates that the Bank is most careful of the integrity of the selection process and we can assure that bids and requests are fairly and promptly treated.

—Size of projects is often a problem; sometimes they are too small for the largest U.S. companies. Therefore, we need to encourage and assist smaller companies to get involved. The export trading company concept is an excellent vehicle for this. Moreover, it permits the "packaging" of several products from different suppliers to meet bid terms. It is more and more difficult for the individual company representative to be successful on a single product basis in the face of competition from other nation's trading firms.

More broadly, U.S. commercial interests in ASEAN are advanced by strong Bank support for:

—free and open markets.
—reduced barriers to private investment flows.
—limiting the scope of governmental regulation and intervention in economic life.

The Bank is, ultimately, a means for planting and nurturing this philosophy in its developing member countries. In this role, it lends strong support to U.S. interest in the region.

In the coming months, the Administration will be completing negotiations for a substantial increase in the capital of Bank, having just completed negotiations for a replenishment of the Bank's soft loan window, the Asian Development Fund. We have been consulting regularly with the Chairman and Ranking Minority Member of the full Committee on the negotiations.

In light of the stringent budgetary conditions, our commitment in these negotiations will necessarily be constrained, but I believe our interests in Asia will be fully served by the continuing substantial U.S. financial role in the Bank. I hope we can count on the members of this Subcommittee for support when authorizing legislation and an initial appropriation request are submitted next year.

One observation needs to be inserted here. As the only regional institution of any magnitude in Asia in which the United States is an important member, our attitude toward the Bank is viewed in Asia as reflecting our attitude toward Asia generally, toward development, and toward assistance to the poor. In addition to the economic significance of our policies toward ADB, this is an important foreign policy perspective which must not be overlooked.

Senator HAYAKAWA. Thank you very much, Mr. Bohn.

I would like now to proceed to some questions. First of all, Mr. Albrecht, you suggest the possibility in your prepared paper that Brunei, a small, oil-rich country, will probably be invited to join ASEAN. Would you tell us more about this? Is there the possibility of ASEAN expanding its membership?

Mr. ALBRECHT. Yes, Mr. Chairman, I think of other countries or soon to become countries in the area. Brunei is the only one that had been mentioned to me by ASEAN officials as being likely in the foreseeable future to attain membership.

Senator HAYAKAWA. A year ago we were told that there is very little likelihood of an increase in membership. Has the situation changed since then?

Mr. ALBRECHT. Perhaps it has. I think I would have said a year ago that there was little chance, but that Brunei might be the only one on the horizon.

Senator HAYAKAWA. Is there the possibility perhaps that Papua-New Guinea might also be interested in joining?

Mr. ALBRECHT. I am not certain about that. I heard somewhere, that they might be invited to be observers at certain meetings, but I have not heard any discussion of membership.

Senator HAYAKAWA. You alluded, Mr. Albrecht, to problems with our ASEAN friends over our tin disposal policy, the Caribbean Basin Initiative, and commodities such as tungsten and rubber. Would you elaborate on these and tell us something more about the nature of the problems in these areas?

Mr. ALBRECHT. Yes. First, with respect to the Caribbean Basin Initiative, I think the ASEAN countries, based on the discussions that we have had, have some considerable sympathy for the objectives of the administration in trying to strengthen the economic and social fabric and foundations of the area. However, obviously, where there is a departure in terms of trade discrimination they are quite concerned

that this could have adverse effects on their own exports or on their possibilities for attracting investment.

Senator HAYAKAWA. That is, the Caribbean Basin Initiative involves free trade between the United States and the nations of the Caribbean Basin, does it not?

Mr. ALBRECHT. That is correct.

Senator HAYAKAWA. That might mean, from the point of view of the ASEAN nations, that they could get frozen out?

Mr. ALBRECHT. Well, for example, it might serve as an incentive for foreign companies to invest in the Caribbean, rather than in ASEAN, in order to take advantage of the free access to the U.S. market. In addition, they are aware of the possibility that there might be investment incentives to U.S. companies to invest in the Caribbean. So likewise, they would be concerned that this might detract from their opportunities to encourage U.S. firms in ASEAN.

We have tried to reassure them that we did not think that their competitive position would be damaged because of the difference in the nature of the economies of the Caribbean as compared to their own. But one has to recognize, I believe, that their concerns are legitimate.

Senator HAYAKAWA. You have tried to reassure them?

Mr. ALBRECHT. We have tried to reassure them. But they remain concerned, because they do not know what the effects might be on them in the future.

With respect to the commodities that you mentioned, on tin the ASEAN countries are very concerned over the continued sales from our GSA tin stockpiles at a time when there is what they consider to be weakness in the tin market. We have explained to them that we believe that the actions taken by the GSA do not unduly disrupt the market and are in small amounts.

But they see it differently. We have discussed it in very great detail, and as a matter of fact we have offered consultations to ASEAN on this and we are in the process of working out an acceptable time and place to see if we can explore some way that the sales might take place in a manner that would be somewhat more satisfactory to them. So we hope to have these consultations as soon as we can work out dates.

With respect to tungsten, the situation is generally similar. This is a particular concern to Thailand. There is a large overhang in the U.S. stockpile of tungsten, which they believe depresses world market prices.

With respect to rubber, we have again in this situation a weakness in price. However, I believe that in the case of rubber we are satisfied, and we believe that the new international rubber agreement, of which we are a member along with the ASEAN countries, is a very good agreement and has the potential to work well.

We are concerned at some indications that producers may wish to act to restrict supplies. If this were inconsistent with the terms of the agreement, we would naturally be very concerned.

Senator HAYAKAWA. Thank you.

You raised the question of the growth rate of the ASEAN nations. There has been some controversy over what in fact the growth rate in the Philippines in 1981 was and what its projected growth rate might

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be for 1982. Would you give us your assessment? I mean, the Philippines is enjoying a steady growth rate, is it not?

Mr. ALBRECHT. Yes; I believe that the growth rate during the seventies was around 6 percent, which was quite strong, healthy and consistent with the general ASEAN performance. I think in 1981 there was a lower growth rate due to an increase in the cost of imports and very soft prices for the Philippines' traditional exports, such as sugar, copra, copper and so forth.

Now, as far as the actual figures are concerned, at one point our own estimate based on embassy reporting was 4.9 percent. I think the official Philippine Government figure was 3.8 percent. These may vary somewhat. I have seen figures, estimates in the press that it was lower than that.

As far as the projection for the future is concerned, for 1982 I would think that we would have to be quite conservative in our estimates, but I would not expect to see a strong resurgence in economic growth. I would not expect to see it go back to 6 percent. So I would estimate that it would be somewhat like the 1981 performance.

Senator HAYAKAWA. Mr. Bohn, would you care to comment on the matter of the growth rate in the Philippines?

Mr. BOHN. There was some dispute with the IMF team that came to the Philippines. The Philippines had projected somewhere, 4.9 or something like that, and there was some discussion during the team's visit.

My recollection of the figure that emerged was something like 3.8 percent for 1981.

My sense of 1982—and I would certainly agree with Mr. Albrecht on this—is that one of the major problems the Philippines has is a significant energy shortage, so they are bending all efforts toward finding alternative sources of energy distinct from their oil importation, which cost them a staggering amount over the last few years, particularly with the oil price increases.

I think they are making great strides to find alternative energy sources through the dendrothermal and through the geothermal facilities that they have in fact been working on for some time. But it is still going to be a while, at least in my estimation, before they get back to the 6 percent figure.

Senator HAYAKAWA. Thank you.

To come back to you, Mr. Albrecht, you mention the ASEAN-U.S. Business Council and its activities in the field of training and technology transfer. Could you tell us some of the details of these activities and demonstrate how they further the interests of the United States and the host nation in these matters?

Mr. ALBRECHT. Yes, I would be glad to.

Senator HAYAKAWA. How does that United States-ASEAN Business Council work?

Mr. ALBRECHT. It was organized in 1979. Basically, there are two sections. There is the U.S. section, which is made up of executives, a limited but quite interested and active group of U.S. chief executives. I would be pleased to submit additional information on who they are, the latest membership, to the committee if that would be of interest.

They work with the ASEAN businessmen who are organized in the chambers of commerce and industry, the so-called ASEAN CCI. The

chairman of their side is drawn from that group. Now, the way they work together is through a series of meetings. They have annual meetings and they have executive committee meetings. Then they have set up work groups in a number of fields.

They have held seminars, for example, in science and technology and in the automotive sector. The working groups facilitate technology transfer. This happens through the contacts that are made, the seminars that are held, and the mutual awareness of the businessmen of the two areas. For example, if American businessmen go out to the ASEAN areas, as they do for the conferences, there is a great deal of discussion of common problems and joint activities.

The working groups try to examine, for example, which policies—for example, in the trade field there has been a great deal of cooperative work done on the generalized system of preferences [GSP] of the United States to make sure that the ASEAN business community is taking advantage of this very excellent program that the United States has enacted. This is more difficult than it would appear, because the regulations have to be understood and the procedures followed. To facilitate ASEAN utilization of this program the business community, the U.S. section has worked very closely with the Office of the U.S. Special Trade Representative, which has done an excellent job in this area.

So I believe the fundamental value comes from the fact that the businessmen who are engaged in these activities are able to share and share, quite frankly, some of the concerns that they have about how government policies may have adverse effects.

This leads sometimes to joint recommendations, which as I mentioned earlier are very powerful expressions of what governments should do. If you already have the business community on your side and they know the practical difficulties that are faced, government I think is well advised to take very seriously whatever they suggest.

Senator HAYAKAWA. I have two more questions for you. You speak early in your paper of lagging sales, increased financing costs and slower growth rates in the industrialized nations, presumably Western Europe, the United States, and so on. And at the same time, toward the end of your paper, you say that ASEAN's future seems bright indeed.

When you say that ASEAN's future looks bright, are you thinking about short- or long-term predictions?

Mr. ALBRECHT. Well, Mr. Chairman, you are right. There may seem to be a degree of inconsistency there. Perhaps my enthusiasm and optimism is the only shield that one can carry into the battles these days.

From my point of view, there are two substantive points which underpin my optimism. First of all, the major threat, I believe, to the continued growth of ASEAN would be protectionism: protectionism in the United States, in Europe, and in Japan. I believe that the leaders of these countries, particularly in light of the Versailles summit, have taken a strong stand against that. I think that stand against protectionism is supported by the international business community and also by the ASEAN nations, who have a real stake in an open international trading system.

So I think that the threat is understood and will be addressed. We will act as best we can against protectionist pressures.

The second reason for optimism, I believe, is perhaps a more fundamental characteristic, and it is this: The ASEAN nations are well equipped in terms of resources, both natural and human. Fundamentally, they have very good educational systems and effective training for workers, which I think will be increasingly important. They have good economic leadership, which is invaluable.

I mention these factors because I believe the economic growth that they can achieve will be based on their relative position compared to other possible competitors in the world economy. I think that they are very well placed, as indeed are other nations in East Asia, and have some of the strongest and most dynamic economies, dynamic in the sense that they have the capacity to change, to adapt to the world economy, and to find a market for their goods.

I think the problems which they face can be overcome based on the experiences of past years and their capacity for diversification based on these factors. So I am optimistic and I will try to stay that way.

Senator HAYAKAWA. Thank you very much, Mr. Albrecht. I will go on and question Ms. du Pont next.

I would like first to say as part of the general background that this hearing is a matter of great importance to me. This is our quiet but nevertheless, I hope, successful opposition to the spread of communism. Every one of the ASEAN countries has had leadership at one time or another which was tempted by communism or which flirted with the idea and could have gone over. Indonesia did for awhile. But they got wiped out in a rather cruel way.

But we are saying we are providing an alternative system of keeping human beings free to make their own economic decisions, work out their own economic destinies.

Through our longer experience with the free enterprise system and through the service of our retired executives that Ms. du Pont has been telling us about—and I would like you to at least expand on that a little bit later, Ms. du Pont—we encourage the enterprise system and the economic freedom and therefore all the other freedoms that go with it, culminating in political freedom, religious freedom, freedom of conscience and everything else that goes into a free society.

You may get bored stiff with a discussion of specific commodities, whether they are bananas, tungsten, zinc or whatever but the exchange of these, the sale of these, the manufacturing and processing of these, and the free trade of these is the very heart, is it not, of the free enterprise system?

And so this is why I regard this kind of hearing and the kind of enterprise you are engaged in, all three of you, as a matter of very great importance to the future of our country.

So I support you, Ms. du Pont. I want you to know that I back you 100 percent.

Ms. DU PONT. Thank you, Mr. Chairman.

Senator HAYAKAWA. Now, for my questions. I do not know is this is one that you are ready to tackle. But in all of the business of encouragement of the enterprise system and the private sector, what did Japan do for the ASEAN nations?

Ms. DU PONT. What does our plan do?

Senator HAYAKAWA. No; what does Japan do for the ASEAN nations?

Ms. DU PONT. Well, it certainly is a competitor of the United States.

Senator HAYAKAWA. Does it invest?

Ms. DU PONT. Yes, it does invest. At least in Thailand it is a very vigorous investor. The Japanese have presented a good deal of stiff competition to the United States. They have a very healthy relationship with the Thai in the investment field.

The Japanese, for instance, make it a point to study the language in Thailand and to come to be familiar with the customs that are attendant with business negotiations; a good deal more so, I suspect, than Americans do. There is very strong Japanese activity in that part of the world.

Senator HAYAKAWA. Mr. Albrecht, would you care to respond to that question, too?

Mr. ALBRECHT. I would agree in general with what Ms. du Pont has said. I think, in addition, we should recognize the impact of the Japanese assistance aid programs, both through the Asian Development Bank, where they are a major contributor, their own bilateral aid programs in the five nations of ASEAN, and their investment activities. In all of these things they are extremely active. Their presence is felt.

They are doing everything they can, both from an economic, diplomatic, and political point of view, to support the ASEAN countries. That includes obviously a great deal of private sector competition, competition from Japanese firms that have the full support of the Japanese Government. So there is both competition with us and yet very fundamental economic assistance and economic activity. So on balance, it is a plus.

I think the implications of it are—what can we do as Americans to be more competitive?

Senator HAYAKAWA. Ms. du Pont, you pointed out early in your paper that one of your objectives is to involve the American private sector actively in the development process, something which President Reagan has emphasized repeatedly. What sort of reception have you received from American businesses? Are they helpful? Do they view American business participation as an altruistic effort on their part or as one which serves their own purposes as well?

Ms. DU PONT. Of course, as I indicated a moment ago, our program is a new one. But we have had, so far, a very enthusiastic reception from American businesses. We have had support from the U.S. Chamber, for instance.

I do not think that U.S. business support is looked upon as an altruistic matter, however. Ours is a market-oriented approach. We expect to be and are using firms to serve our own objectives. They, of course are interested in profits, the bottom line. I think that we have a good deal of ground in common and are going to be able to bring both of our objectives to bear on the development situation in these countries.

Senator HAYAKAWA. That is a very reassuring answer. It is not a charity case to them.

You mentioned that you plan to work with host governments to provide the environment needed for private enterprise to function effectively. You also expressed the hope of helping remove bottlenecks and of building the management and technical skills base needed for a

vigorous private sector. How do you go about doing all of these things?

Ms. DU PONT. Well, I agree it does sound like a tall order. Insofar as Thailand is concerned, which is the area I have spoken to most recently, we are bringing a group from the Young Presidents Organization into that country.

Senator HAYAKAWA. Young Presidents Organization?

Ms. DU PONT. Yes. The U.S. Young Presidents Organization.

Senator HAYAKAWA. That is a lively outfit.

Ms. DU PONT. And very much involved in small- and medium-size enterprise, which, of course, is one of our main focuses. They will be going into Thailand with a hands-on attitude toward assisting small- and medium-sized businesses in that country, going into the factory giving seminars, providing 2-day sessions which would be available to Thai businessmen.

We also have set up a management training program which we will be starting in July for midlevel management training in Thailand again which we view as a real need in Thailand.

Another example, not related to the ASEAN area, is an African example. The Government of Kenya has asked us to come in and provide advisory services.

Senator HAYAKAWA. Who is that?

Ms. DU PONT. The Government of Kenya in Africa—unrelated to this particular area—has asked us to provide advisory services with regard to studying its financial markets. This is the kind of example that we would expect to be able to implement throughout the ASEAN area as our program expands.

Senator HAYAKAWA. That is wonderful. You alluded to the long-term benefits which would accrue to the U.S. private sector from your plans. I do not disagree with you, but I wonder if you could elaborate on this for the record. What are the long-term benefits?

Ms. DU PONT. I think the best measure of that, perhaps, is the way in which we could strengthen private enterprise and promote growth within these countries and, in so doing, to build markets for U.S. goods in the long run.

I think to have a strong economy in each one of these countries is the best measure we could have of what the long-run benefits could be.

Senator HAYAKAWA. Ms. du Pont, you described your planned activities with agribusiness, and it seems to me that your activities there will require an entirely different sort of agricultural expert than has previously been available within the AID personnel field. If this is correct, it makes me wonder whether you are encountering any difficulties finding the right people to carry forward your plans.

Ms. DU PONT. Well, you are certainly correct that the kinds of agribusiness skills that are involved in our new program are not widely available in the Agency for International Development at the moment. There are some of them in the Science and Technology Bureau available to us as resources.

However, we have been engaged in two activities. We have been using extensively the service on a short-term basis of consultants in the agribusiness area. IBEC has been very helpful, the Agribusiness Associates, which is a consulting firm associated with Prof. Ray Gold-

berg, a professor of agribusiness at Harvard who has been helpful to us.

In addition, we are bringing on board the Bureau staff an agribusiness expert who will be helping us put together our agriculturally related projects. So I think we will be able to bring to bear those skills which, you are quite correct, we will be needing.

Senator HAYAKAWA. In your prepared statement, your discussion of how your program differs from past efforts evokes two questions: First, what bureaucractic control mechanisms are you creating to manage your efforts; and second, are we going to see an increase in the size of AID staffing?

Ms. DU PONT. If I may, I would like to address those in reverse order.

Senator HAYAKAWA. All right.

Ms. DU PONT. We do not expect to increase the AID staffing level. We would expect to operate within existing ceilings.

I think, insofar as the first portion of your question is concerned—the bureaucratic controls mechanism—our proposals to the business community as my prepared remarks indicated, are printed in the Federal Register and the Commerce Business Daily. Also, announcements will be going out to different private enterprises—those private enterprises will be asked to provide for us, once a project is initiated, quarterly statements of their activities. Those will be financial statements.

In addition, we expect to be able to provide oversight activities with respect to the field by sending out experts from Washington to investigate the nature of the enterprises and their current activities.

Senator HAYAKAWA. I am glad to know that you are going to be bureaucratically penurious.

Your discussion of convertible debentures would seem to me to involve the U.S. Government heavily in the foreign marketplace. Is that the case? Do you see any problems in this involvement?

Ms. DU PONT. I can understand the chairman's concern. It is an unusual step, to be utilizing convertible debentures and in a foreign government's marketplace. However, our use of them, we believe, would be on a very rare basis. We would be limiting their use to only those circumstances in which the institution could not generate sufficient cash flow to pay high interest rates in the first few years of operation—for example, a venture capital firm—or where we could facilitate capital market development and indigenous private ownership over time.

Indeed, we will be further limiting our use of convertible debentures because we would only, even in that rare instance, be using them for a startup operation and indeed only in perhaps a high-risk situation so that we could take some of the risk up front.

Further, our statutory authority does not permit us to take an equity position, so we would be holding these debentures as debt and then selling them at some future date and promoting the use of equity in the marketplace in these countries.

We would be using these on a very limited basis. That is my point.

Senator HAYAKAWA. You mentioned your Bureau's missions to Indonesia and Thailand and offered to provide their reports. First, could you tell us a little more of the activities of these missions? Second, would you provide the reports for today's record?

Ms. DU PONT. We brought the reports today, Senator. I would be happy to supply them for the record.

[The information referred to follows:]

AGENCY FOR INTERNATIONAL DEVELOPMENT, BUREAU FOR PRIVATE ENTERPRISE—SUMMARY OF PRIVATE SECTOR RECONNAISSANCE TEAM REPORT ON INDONESIA, OCTOBER 25–NOVEMBER 6, 1981

Members of the team: Edgar C. Harrell, Deputy Assistant Administrator, Bureau for Private Enterprise; Joel Goldhar, Executive Director, Manufacturing Studies Board, National Academy of Sciences National Research Council, Washington, D.C.; Ronald Katz, Esq., Gaston Snow & Ely Bartlett, Palo Alto, California; L. H. Jordan, International Agribusiness Consultant, New York, New York; and George Ferris, Jr., Chairman of the Board, Ferris & Company, New York, New York.

Goals of the mission: To explore private sector development opportunities in Indonesia.

During the exploratory team visit to Indonesia, the participants met with the Indonesian Ministers of Finance, Agriculture, Industry and Foreign Affairs, as well as Indonesian private business executives representing key financial, agricultural, industrial and resource sectors of the economy. Discussions were held with American businessmen representing U.S. private sector ventures currently operating in Indonesia and the American Chamber of Commerce. Meetings were held with Kadin, the Indonesian Chamber of Commerce. Meetings were also held with the U.S. Ambassador and members of his staff, as well as with the AID Mission. The Reconnaissance Team was received with courtesy and responsiveness by all upon which it called.

1. INVESTMENT CLIMATE

The Indonesian economy is both sufficiently advanced to support and will benefit from the further development of an entrepreneurial and managerial middle class. The U.S. private sector in particular can be a catalyst in this expansion. The Indonesian Government will need, however, better defined administrative, regulatory, legal, and capital market procedures. The U.S. Government can assist in this effort. The Government of Indonesia has shown a willingness to adapt policies to aid U.S. companies now operating in Indonesia, but considerably more encouragement is needed in this regard to attract new U.S. private investors. Existing Indonesian commercial, financial and industrial organizations provide a core around and through which the AID Bureau for Private Enterprise can work to define and encourage joint private sector projects. Ancillary accounting, legal, banking, and financial support is available as will be needed by new ventures and investors through the sizable U.S. business community already resident in Jakarta. While investment obstacles exist, most notably in Indonesian law and fiscal policies, many sound opportunities for participation of U.S. business in the development of Indonesia are apparent.

2. AREAS OF INVESTMENT OPPORTUNITY IDENTIFIED

Training in management, technology, engineering and finance to increase the depth of indigenous expertise available to all types of projects.

Capital markets need to be strengthened and innovative techniques used to enable expansion of Indonesian private sector development and investment.

Agribusiness offers a wide spectrum of opportunity but initial efforts would best be directed toward processing because Indonesian land law effectively obviates direct foreign private investment in food production.

Light manufacturing of products to substitute for imports or for export to third countries (*not* to the United States), can increase employment levels in Indonesia while improving Indonesian balance of payments on both the import and export fronts. Examples of light manufacturing facilities needed are for machine tools, small power tools, wire mesh for concrete and other uses, and food preservation and packaging. Downstream light manufacturing facilities are both sought from and suitable for private investment to complement heavier industry sectors which exist largely in the public domain.

Communications of commodities and information, including word processing, printing and graphic arts, advertising, public relations, and transportation can

benefit from U.S. private sector expertise, and the availability of these technologies will speed the development of projects in other areas.

3. RECOMMENDATIONS

In the first year or two of PRE support for private sector development in Indonesia, efforts should be focused on a limited number of key private sector support projects such as training, finance and communications to strengthen visibility and to elicit the action by both the Government of Indonesia and the private business community. Efforts to adapt local administrative regulations and laws should be directed initially toward specific changes for specific projects which the Government of Indonesia can endorse as mutually beneficial leaving broader accommodations in Indonesian policies for an appropriate later stage when the mutual desirability of such changes will be more apparent.

Emphasis in the selection of projects must include: (1) attention to the mutual priorities and interests of both the Indonesian Government and the United States and Indonesian private sectors; (2) employment generation; (3) the transfer of U.S. private sector expertise in training, technology, management, marketing, finance; and (4) the products and services needed within Indonesia or as import substitutions and/or exports to third countries where they will not be competitive with U.S. products.

A low cost, highly effective way of fostering joint venture private sector investment would be to set up a United States/Indonesian Investment Opportunities Commission to act as a vehicle to screen projects, to familiarize United States and Indonesian businessmen with opportunities and the necessary procedures, and to act as a "broker" in bringing interested parties together. This interpersonal cooperation and understanding is essential to the long run success of all ventures.

In the area of training, a two-fold approach is recommended. Senior executive and MBA-level management training is a top priority for technology, accounting and finance. At the same time, attention must be given to the development of trade skills such as welding, tool and machine repair, bookkeeping, etc. This two track training approach can best be implemented with private sector components of new project proposals, with associated costs included in initial capital requirements for start-up. Efforts must be made simultaneously to encourage an active dialogue with existing local organizations such as the Association of Young Indonesian Businessmen (Hipmi). Efforts to establish a more formal working relationship between *Hipmi* and the U.S. Chapter of the Young President's Organization (YPO) should be undertaken. Also, the International Executive Service Corporation (IESC) is doing a good job in Indonesia and should be encouraged to take an active role in training efforts.

The capital market system in Indonesia is limited at present, with little availability of equity financing for Indonesian firms and a local tax system which inhibits public offering of stock shares. Nevertheless, two opportunities geared to improving this situation exist. The first—and most immediately feasible—is the development of private venture capital firms that offer not only financing, but advice on management and technology to Indonesian private business. Second, is a plan to expand public offerings on the Indonesian stock exchange.

It is not recommended that U.S. AID advisors be offered for assignment to Ministries of Indonesia concerned with private sector development, with the possible exception of the Ministry of Agriculture for which this widespread support is needed. In general the team felt that it was inappropriate to add to the Indonesian bureaucracy.

As an adjunct to training program development, it is strongly recommended that special training facilities and courses be organized to cover the key components of private sector methods and philosophy: that a senior staff member from USAID/Indonesia attend these executive level sessions along with Indonesian candidates.

AGENCY FOR INTERNATIONAL DEVELOPMENT, BUREAU FOR PRIVATE ENTERPRISE—SUMMARY OF PRIVATE SECTOR RECONNAISSANCE TEAM REPORT ON THAILAND, FEBRUARY 1–5, 1982

Members of the team: Elise R. W. du Pont, Assistant Administrator, Bureau for Private Enterprise; Edgar C. Harrell, Deputy Assistant Administrator, Bureau for Private Enterprise; Lowell Hoskins, President, Arbor Acres Farms, Inc., Glastonbury, Connecticut; Tracy S. Park, Jr., Vice President, Tenneco, Inc., Houston, Texas; Margaret B. W. Graham, Assistant Professor, Harvard Univer-

sity Graduate School of Business Administration, George F. Baker Foundation, Cambridge, Massachusetts; and Daniel F. Hefler, Jr., Semiconductor Specialist, Arthur D. Little, Inc., Cambridge, Massachusetts.

Project design group: John D. Montgomery, Professor, Kennedy School of Government, Harvard University, Cambridge, Massachusetts; and Robert Muscat, Consultant.

Goals of the mission: To explore private sector development opportunities in Thailand.

I. RECONNAISSANCE TEAM OBJECTIVES

At the request of the Royal Thai Government, an AID Bureau for Private Enterprise (PRE) reconnaissance team visited Thailand during February 1–5, 1982, to evaluate the general potential for increased private investment in three sectors: natural gas related industry, agribusiness, and electronics. The team also evaluated the business management sector. The team was able to obtain an overview of the investment potential of these sectors and the general investment climate in Thailand. The team also provided impetus to a U.S. Government private sector initiative in Thailand comprising (1) a program to increase the flow of private investment into priority development areas (Thailand is one of only ten countries worldwide that will be initial beneficiaries of this program), (2) an Overseas Private Investment Corporation (OPIC) investment mission to Thailand, (3) a USAID/Thailand bilateral project to complement the PRE program of increasing private sector participation in meeting Thailand's development objectives.

II. ASSESSMENT OF GENERAL INVESTMENT CLIMATE

The team concluded that the general investment climate in Thailand is quite favorable, although some areas of concern are also obvious.

The Thai infrastructure and economy is superior to that of many developing countries: highway, rail, air transport and telephone facilities are good through most of Thailand; however, irrigation infrastructure, particularly in the Northeast appears to need further development/improvement. With regard to education, there appear to be numerous people with advanced degrees from Thai, European, and U.S. universities at the high levels of both government and private business although shortages of skilled and experienced manpower at several levels are becoming increasingly common. In the energy area there are many new discoveries of natural gas, but virtually all crude oil and some refined products must currently be imported.

The population growth rate is moderate (2.1 percent annually but declining); but it is observed that Thais are in the initial stages of a massive shift from a rural to an urban society (75–80 percent currently rural). Thailand's economy is among the world's fastest growing and between 1975–1979 GDP grew an average rate of 8.7 percent annually.

Thailand is one of the world's few net food exporters, and agriculture—rice, cassava, rubber, corn, livestock, fish—accounts for 60 percent of exports. Despite generally increasing exports, balance of trade problems have become painfully unfavorable in recent years primarily due to the rapid increase in oil prices. In 1980 oil products accounted for almost one-third of imports by value.

The Thai Government seems to have had more success than most other developing countries in encouraging its private sector to flourish. Nevertheless, although Thai officials know well the generally negative effects of price controls and of regulation, these same officials may not have the power to change these disincentives. The American Chamber of Commerce and Thai businessmen seem to have an easy, mutual confidence and the current Thai administration is striving to improve the public/private sector dialog and this healthy trend appears well-established.

The team would like to note that Thailand's growth in investment, productivity, and balance of trade has been excellent over a sustained period. Its ability to grapple successfully with changing energy costs, world-wide inflation, price policies, new agricultural technologies, and over-regulation is as encouraging as its prospects for the future in natural gas and utilization of its efficient and productive labor force.

There is no need for drastic measures or changes of direction. The United States should refrain from implying that there is; but some developments can be encouraged, current and emerging weaknesses corrected, and potential problems averted by judicious action.

III. RECOMMENDATIONS TO IMPROVE GENERAL INVESTMENT CLIMATE

A. Private Sector Capacity.—Private Thai associations meet regularly to consider their common interests, but none has a professional staff nor has financial capacity to hire private consultants. USAID could contribute by funding an American consulting group to serve these organizations.

B. Public Sector Capacity.—Primary responsibility for attracting and facilitating private investment in Thailand lies with the Board of Investment which has limited staff capacity. Thailand needs to better promote its potential to overseas investors and more effectively respond to investor's needs. Here again an American consultant group could greatly improve the situation by strengthening the capabilities of BOI and helping it to carry out a targeted promotional campaign.

C. The Public-Private Interface.—Create a constructive dialogue on important public issues through voluntary associations in the United States with a small board of distinguished leaders from the private and public sectors, academics as well as small entrepreneurs whose voices are seldom heard in large commercial and industrial associations and government circles.

D. The U.S./Thai Private Sector Interface.—The sharing of effective technology and management techniques could be facilitated by formal linkages between industry clubs in the United States and Thailand. The Marshall Plan, "Productivity Team" concept might serve as a useful model to apply in this effort.

E. Senior Seminars.—Thailand's policy makers could benefit from increased exposure to the U.S. free market system to see for themselves its strengths and weaknesses. A senior seminar for senior government officials is recommended under the sponsorship of an appropriately prestigious United States institution.

F. Industrial Development Financial Packaging.—Thailand's financial institutions could benefit from assistance in identifying and packaging potentially attractive investment projects. Technical assistance and some initial financial assistance is recommended to start a pilot program.

G. Management Training.—Rising costs make it increasingly difficult for individuals in Thailand to finance educations and management training involving one or two years in an American university. Training in public and private administration would be welcomed in Thailand. Judicious support to such efforts could contribute substantially to their quality and capacity. Further investigations of this are planned to determine possible options for an AID program.

H. Negotiate/Ratify Tax Treaty.—A tax treaty to resolve the double taxation problem would undoubtedly improve the investment climate for potential U.S. businesses in Thailand.

I. Topics for Further Study.—Topics which might be studied to improve the environment for private enterprise are:

1. Appropriate training and technical assistance to implement Government Fifth Plan goals;
2. Comparative study of specific industrial policies and practices in East and Southeast Asia to help Thailand identify areas in which it can improve its position;
3. Study applications to the BOI for support which were withdrawn by Foreign and Thai entrepreneurs to see why incentives offerings were deemed of little value; describe circumstances leading to withdrawal to provide base for comparative analysis; and
4. Explore experiences of small enterprises to see what can be learned from successes and disappointments suffered.

IV. SUMMARIES OF INDIVIDUAL TEAM MEMBER'S REPORTS

A. Training

While the uses of natural and financial resources have received much consideration in Thailand's recent planning process, the critical issues of manpower—specifically the depth of management capability and availability of skilled and semi-skilled labor—have been inadequately identified. Thai Government officials and private sector managers alike, as well as members of the American investment community, have spoken of management and skilled labor as problem areas serious enough to be a potential brake on the country's rapid development. There is little doubt that the availability of adequate trained or trainable internal manpower resources is a significant factor in the attractiveness of any country's investment climate to future investors, whether domestic or foreign.

1. Defining the Needs

To date, management and technical expertise and availability has been adequate for Thailand's growing economy, but shortages are emerging and are expected to become worse. Competition for qualified managers has become increasingly intense as evidenced by compensation for managers with advanced degrees which in turn depletes the ranks of lower paid management professors and managers in smaller to medium-sized firms. This situation has resulted in the following identifiable problems:

(a) an absolute scarcity of mid/upper level experienced managers;

(b) the absence of key management skills, particularly in general management and in technology transfer;

(c) lack of basic management skills in small/medium businesses, and especially needed if agricultural projects are expanded;

(d) severely inadequate management course materials, particularly in the Thai language or adequate skill in English;

(e) inadequate incentives for retaining of skilled management teachers; and

(f) a scarcity of semi-skilled workers across-the-board although workers are easily trainable.

2. Training Projects Identified

(a) *Chulalongkorn/Wharton & Northwestern Joint Project.*—This proposal, the most fully developed thus far, suggests an English language graduate management program with heavy emphasis on marketing, finance, and general management. Chulalongkorn University and the American management schools would each provide an equal number of management faculty to teach 20 carefully chosen students. The program has support to roughly $500,000 from the Thai private sector and there is talk of enlarging the enrollment. More realistic budgeting may be necessary as well as an assessment of the feasibility of finding sufficient qualified applicants were the project to be expanded.

(b) *Thai management association proposal.*—This program addresses an improvement in quality and amount of suitable Thai language management training materials and supports a case-writing workshop specifically geared to the experience and needs of business in Thailand. The plan is compatible with the ASEAN-U.S. Business Council "Training the Trainers" program. There is a particular need for materials useful to managers of small and medium-sized businesses written in or translated into Thai.

(c) *Improving compensation for "traincrs"* [Thai management association (TMA) proposal].—As research money presently offered is not on a par with consulting fees available from the private sector, it is suggested that funding be made available to supplement course development compensation for those qualified to do work, but who now use their time for more lucrative endeavor.

(d) *Management consulting and training for agribusiness* (a TMA proposal).—This would be a business extension program but the idea and its funding have not been well-defined as yet. As part of the consideration process, the team felt that encouraging a broader definition to include all sorts of enterprises might be appropriate.

(e) *The teaching of entry level basic skills.*—Again not well-defined as yet, this would be a pilot program to prepare semi-skilled workers in skills useful to and needed in a variety of industries.

3. Recommendations

Recommendations for action center on a plan for awarding funding on a supplementary or matching basis for several different programs already proposed in some form by the Thai universities or Thai private sector. To use new programs or to develop new institutions is felt to be inadvisable insofar as they would only compete with an already limited supply of manpower and training resources. So great is the need for additional training in management and technology in Thailand and so supportive are the Thai educational and business communities in developing this capability, that using existing resources is not only advisable but likely also in the longer run to produce programs which will endure.

B. Electronics

It is expected that the new wave of investment in the semi-conductor industry will not reach the magnitude seen in the past. Because leading United States, European and Japaneses firms are turning toward automation, because fewer chips will be packaged as 1k, 4k, and 16k RAMS are replaced by 64k and 256k

RAMS. In this difficult environment, Thailand in particular will have to stretch to attract potential investors as the country cannot be marketed as a "low-cost environment" such as Sri Lanka or Indonesia. Nevertheless, companies in the semi-conductor industry have traditionally tried to spread their investments to lessen political and policy risks. Thailand is therefore potentially attractive, but may find greater success in stressing opportunities in hardware manufacture, capitalizing on the proportionately high level of technical education there.

1. Problems identified and recommendations

(a) A cheerful helpful welcome to investors is needed and follow-up should be improved. Action: Create a small cadre of technically and business trained investment officers (in the RTG) who can identify and undertake action to remove investment obstacles, provide assistance with applications, and help in obtaining expeditious actions on formal applications.

(b) Semi-conductor and high-technology investors, are inordinately adversely affected by delays between completion of investment project planning and the granting of approval to proceed. Action: Empower the BOI to grant immediate approval of all projects in advanced technology areas and to do so in the language of the applicant, rather than in Thai.

(c) The BOI creates an initial cumbersome and confusing impression upon entry to their offices. Action: Create an attractive reception area and greeting/conference room to dramatically change this first impression and even create a favorable second impression when the prospective investor is led through past files of previous investment applications.

(d) BOI cannot be expected to maintain expertise in all areas, but the Agency should inventory and promote all opportunities for investment in Thailand. Action: Supply a technology development counseling officer to work with the BOI.

2. Specific project proposals

(*a*) *Telecommunications.*—Finance cost/benefits study. Need for 3 million additional telephone lines estimated between now and 1991.

(*b*) *Consumer Electronic Products.*—Finance cost/benefit study on domestic manufacture of these products and the 'ripple effect' such manufacture would have on the Thai economy.

(*c*) *Glass Picture Tube Components.*—Study feasibility of manufacture for use in color and black and white tubes, Thailand endowed with natural gas to provide low cost energy and low-iron sand is believed available for a viable world-scale picture glass tube components industry.

C. Agriculture

1. Areas of investment opportunity identified

(*a*) *Farm Machinery & Implements.*—There are two Thai/Japanese diesel engine plants which are operating successfully and which are Thai controlled and managed. There are more than 100 makers of tractors and implements, but they are small operations which need consolidation or tying into a management system to achieve standardized, interchangeable parts and economies of scale.

(*b*) *Rice.*—This is Thailand's largest crop, a diet staple which also comprises 18 percent of total Thai exports. The rice is mostly grown in small plots, is hand harvested, threshed, etc., and there are an estimated 30,000 small mills for hulling and polishing. Many Thai farmers are barely in the cash economy, but large rice farmers are prosperous. Nevertheless, they need incentives to use more modern methods to reduce losses through kernal breakage in milling.

(*c*) *Corn and Sorghum.*—Better seed hybrids are needed for these crops.

(*d*) *Soybeans.*—Current imports from the United States.

(*e*) *Cotton.*—Cotton is imported from the United States. Some is grown in Thailand, but the industry is *not* well-developed. Cotton is labor-intensive and requires substantial quantities of fertilizer and pesticides.

(*f*) *Agricultural Chemicals.*—A Scandinavian group is constructing a large nitrogenous fertilizer plant which should supply Thailand with all its needs plus some for export. Potash is plentiful in Thailand but phosphates must be imported. Pesticides are desperately needed as imports are now approaching $60 million per year. Both fertilizers and pesticides are vastly underutilized in Thailand at present.

(*g*) *Cassava.*—This is Thailand's second largest export (for animal feed). It enjoys a low EEC tariff vs. grain, but it has no protein (vs. grain) and therefore is not attractive to other countries which import ingredients for feeds.

(*h*) *Poultry.*—Industry is well-advanced and far superior to much of the world's. Poultry is exported in growing quantities and is an excellent example of what can happen to markets left to themselves with little Thai Government involvement.

(*i*) *Swine.*—Pork is popular in the Thai diet. There have been considerable efforts to improve breeding stock and to increase swine production. Slaughterhouses are government operated. It is doubtful if foreigners can or should get involved in local production.

(*k*) *Food Processing.*—Thai food stores are heavily stocked with a variety of canned goods and processed meats. Pineapple and marine products are the primary export items in the processing group.

2. Recommendations

(*a*) *Farm Machinery and Implements.*—The future appears to be in consolidation and rationalization of smaller manufacturers, *not* in large tractors and *not* in assembly of imported equipment. The market may be too specialized or fractionalized for U.S. manufacturers.

(*b*) *Rice Farming and Milling.*—Get specialists to assess situation, especially with respect to obsolescent mills and using larger mills to provide greater final value to the crop.

(*c*) *Fertilizer/Pesticides.*—There is a special need to educate farmers to usage of these chemicals and to arrange cash and credit to improve demand for these needed agents. This area should be examined in greater detail.

(*d*) *Cassava.*—Take no action. The industry is expected to decline.

(*e*) *Northeast Thailand.*—Check the situation near the Laotian border where RIG is trying to spur agricultural growth. The problems are the same in this area as in others, but the situation is more difficult and could use productive U.S. help.

(*f*) *Cold Storage and Grain Drying Facilities.*—These exist and are increasing, but more are needed.

D. Natural Gas Industry

In 1966, the Royal Thai Government (RTG) with a grant from USAID began an administrative and legal process for the development of energy resources in Thailand. Following this initiative and the ensuring legal framework, the decade of the 1970's witnessed a surge in exploration and drilling activity in the Gulf of Siam. The search for oil was unsuccessful, but heavy hydrocarbon-rich natural gas has been found in abundance and commercial production commenced in September 1981. The volume of future drilling activity will depend on the willingness of the RTG to agree to purchase prices that reflect an acceptable rate of return to the oil companies conducting the exploratory drilling, considering the large capital outlays and associated risks.

1. Organizational Structure

The organizational structure of the gas industry in Thailand is as follows:

(a) Private international investors are permitted to find and produce hydrocarbons under a royalty and corporate tax system mutually acceptable to them and the RTG.

(b) The RTG, through the Petroleum Authority of Thailand (PTT), will own, operate and maintain gas pipeline transmission and distribution facilities from the fields to the RTG or privately-owned user.

(c) The PTT is extending its authority one more step in the downward vertical integration of the gas industry—that is, the PTT will own and operate the gas separation plant to be built in Rayong. This facility will separate ethane and other LPGs from the gas stream.

(d) All further downstream processing will be offered to private or possibly mixed-sector investment in olefin and petrochemical plants, utilizing residual pipeline methane as well as ethane and propane from the gas separation plant. Methane is an ideal fuel for electric power generation, general industrial heating, and as a feedstock for the manufacture of ammonia and methanol.

2. Investment Climate for Gas Related Industry

In the natural gas industry, it is essential for investors to understand the RTG entities, individuals or organizations, who make or influence decisions. Knowledge of applicable laws, taxes, and regulations are also important.

The Japanese possess considerable advantages in the Thai business community. In addition to good technology, low-cost quality goods, and attractive financial packages, they operate successfully in less tangible ways: they are less con-

cerned with Thai laws and regulations than with the individuals who administer them and they take great pains to learn the Thai language. Nevertheless, the United States has ample opportunity to participate in Thailand's natural gas-based industries because (1) U.S. technology, equipment, management, and experience in pipelining and processing are superior; and (2) the RTG wants a balance of foreign investment from a variety of sources which already include Norway and Germany, and the United States.

Political instability is always possible, but experience has shown that in spite of changes in government, Thai investment policies have remained fairly stable.

The tax code is a far greater uncertainty as there are inconsistencies between the Thai General Revenue Code and the Thai Petroleum Law. This has already caused problems for U.S. petroleum concessionaries which usually have regional headquarters in Singapore. Thailand has a double taxation treaty with several countries, including Singapore. Tax treatment of foreign companies and contractors in Thailand must be clarified by the RTG.

One must appreciate, however, the candid self-criticism on the part of both RTG officials and private Thai businessmen in viewing their own internal problems. They are frank in discussions, public and private. The RTG has established a tax board to examine and, hopefully, redress grievances.

In late 1979 or early 1980 the RTG extended a hand of cooperation to the private sector as some government officials who had worked in the private sector returned to RTG with a new respect for the importance of a viable business community unencumbered with unreasonable government control. If the RTG will allow market-oriented economic forces to prevail by relaxing central planning and control, entrepreneurial instincts and aggressiveness of businessmen could enable Thailand to replicate the economic performances of Taiwan, South Korea, and Singapore.

3. Opportunities for Investment in Energy-Related Projects

The Thai fifth five-year plan structures the types and quantities of downstream petrochemical intermediate and end products to be produced. The reality of the situation, therefore, is that RTG agencies will impact significantly on any investment plans a U.S. firm may have, especially in the energy-related area.

The existing RTG-owned pipeline can handle all the foreseeable production in the Gulf of Siam. About four other pipeline projects are under study by the PTT to handle additional gas quantities from the six offshore gas fields. Two PTT-owned gas separation plants are planned for operation by 1984 and 1987. Thus, gas production is in private hands, predominantly American, and gas pipelining and processing (separation) are state-owned and operated. Downstream from this point, the RTG plans to invite the private sector to make its entry.

(*a*) *Fertilizer.*—With sufficiency in natural gas, Thailand can have its own fertilizer industry. There is little possibility for U.S. direct investment in fertilizer because a Scandinavian consortium has already been selected to invest, build, and operate a complex to produce urea and ammoniated phosphates.

(*b*) *Potash.*—Thailand has world-class deposits of potash in the northeast. A U.S. firm may seize the opportunity to mine, process, and export potash.

(*c*) *Ethylene Production (olefins).*—Ample supplies of ethane and propane are ideal for cracking into ethylene. The question of wheather ethylene can be produced in Thailand and sold at competitive world prices is being studied by foreign advisors to the PTT. A current proposal suggests construction of a 300,000 metric tons per year ethylene plant. This facility would be the upstream unit of a petrochemical complex. Polymer grade ethylene and propylene must be produced in this plant for downstream production into primary plastics polymers. Production, however, would be sized to Thailand's domestic market, plus a margin for growth and export if such sales can be managed.

This ethylene facility, planned for operation in 1987, may be a candidate for engineering design, construction management, and equity participation by a U.S. firm.

(*d*) *Petrochemicals & Plastics.*—The ethylene plant will in turn be the source of feedstock for a host of petrochemical plants producing intermediate monomer and primary plastic polymer materials. This can be the dawn of a new era for petrochemicals in Thailand. The chain is a long one and will be vertically integrated from off-shore gas platforms to final plastic products. There are now literally hundreds of small scale plastic fabricators, employing nearly 50,000 people or about 3 percent of Thailand's industrial workforce. The plastics indus-

try, going back to the 1950's, began in Thailand based on import substitution, thus focusing on end products. This explains the existence of numerous small fabricators and compounders for whom risks and investments were low and the scarcity of firms engaged in basic production where attendant capital and feedstock requirements are huge.

When new plants come onstream as planned in about 1987, however, import requirements for polymers should fall sharply. Thus, Thailand's plants, if built to world-class size may experience difficulty in marketing their exportable surplus at prices high enough to cover costs. Petrochemical complexes including polyethylene plants will also be coming onstream at about the same time in other parts of the world; i.e., huge complexes at Jubail and Yanbu in Saudi Arabia. Costs and final prices are therefore crucial.

Nevertheless, at any point in the vertical integration of this industry the RTG can offer feedstock subsidies on natural gas, ethane, propane, or ethylene. With this in mind plus promotional privileges offered by the BOI, RTG can make these young energy-related industries competitive with world market prices. But, this could come at a heavy sacrifice for the RTG and the Thai population to bear. Much depends on progress in the global economy.

4. Conclusions for Gas Related Industry

Thailand has not been receiving its share of foreign investment. Thai businessmen seem ready to believe that the Thai government will make the private sector an integral part of Thailand's development program. Especially important now is that foreign investors become similarly convinced. Three strong Thai private associations can help in this endeavor. The Association of Thai industries; the Board of Trade; and the Thai Bankers Association. Thailand's business leaders are on the threshold of a new and exciting opportunity unparalleled in the nation's history.

U.S. expertise in petrochemical processing and related equipment design is good. Significant amounts of U.S.-manufactured machinery and materials can be supplied to Thailand if American firms receive contracts and chemical companies make investments.

Export financing has and will be the major obstacle for U.S. private sector investment. U.S. export financing is now at least 3 percent above credit terms offered by competing countries. Also other countries have the advantage of offering mixed-credit programs, of intermingling their export finance programs with concessionary aid. The United States and Norway are about the only industrialized countries which do not offer mixed-finance packages.

5. Recommended Actions

(*a*) *Natural Gas Seminar.*—Sponsor seminar in Thailand 10 days-2 weeks. For the benefit of management, engineering, accounting and field operating and maintenance personnel of PTT. Use American teaching staff from U.S. gas transmission companies. Because of the dire need within PTT for training, this should be undertaken immediately. If all downstream users of natural gas, starting with the gas separation plant, are going to be assured of a reliable supply, the PTT must learn to operate and maintain the system properly.

(*b*) *AID Technical Contract Advisor.*—Recruit a qualified chemical engineering consultant, knowledgeable of U.S. chemical companies which own and operate petrochemical plant and engineering firms that have technology they are willing to license. The scope of his work would be: (1) assess Eastern Seaboard Master Plan and type, capacity and projected capital investments required for new petrochemical plants; (2) determine interest of U.S. firms and communicate all information to them; (3) promote general U.S. capabilities to PTT, NESDB, MOI, etc.: (4) assist interested U.S. firms in all possible ways; (5) become familiar with private Thai chemical companies interested in joint ventures. This advisor should not be on board as advisor to the PTT because advice he gives will be to private sectors.

Ms. DU PONT. I dealt in my verbal remarks briefly with our activities in Thailand. We felt that there was a considerable need for midlevel management and expertise. And we recommend in the reports that whatever necessary should be done to promote midlevel management expertise. We see a vigorous private sector in Thailand. We see

a new dialog between the Thai private sector and the Thai Government sector which we would encourage and do what we can to promote.

I think we see perhaps not the identical situation in Indonesia, but certainly a vigorous private sector there. Both of those countries, of course, are prime candidates for our kind of effort.

Senator HAYAKAWA. Good. I was interested to learn that the International Executive Service Corps recently was integrated in your Bureau. This is something that interests me because these are people that are just about my age, I guess.

Senator BIDEN. Oh? They are 35, Sam? [General laughter.]

Senator HAYAKAWA. That is right.

I would like to know a little more about how you find them, how you place them, and how they do when they get there.

Senator BIDEN. And if they have the energy of Senator Hayakawa, you will be in serious trouble because they will drive you crazy.

Ms. DU PONT. You are quite correct. That is exactly what the point is. These are people who are recently retired, who have a great many skills that we do not want to leave underutilized. So as a consequence, this program was designed about 20 years ago by Frank Pace to bring to bear those skills in private enterprise in the developing world. It does so on a business-to-business basis.

There is a fee charged to the client enterprise. The program has been established in some 70 countries. In Thailand, as I mentioned earlier, there are four permanent people there who administer the program. I think there are some 231 projects that have been administered in Thailand since its inception.

Senator HAYAKAWA. That must be a very exciting career for these people.

Ms. DU PONT. I think it must be, Senator.

Senator HAYAKAWA. Let me turn next to Mr. Bohn. Thank you very much, Ms. du Pont.

In your prepared testimony, Mr. Bohn, you mentioned that the Bank provides technical assistance grants and has in-house consultative expertise that can be made available. Can you tell us of specific examples of assistance that you have provided in these areas?

Mr. BOHN. Mr. Chairman, there are really a great number of examples. I think in 1981 alone there were 49 technical assistance grants amounting to almost $15 million.

One has to distinguish the technical assistance grant that is given by itself from those which are given in conjunction with project preparation. Many times in conjunction with a loan, for example, the Bank's appraisal mission determines that the implementing agency or that arm of the Government which is supposed to be dealing with the project needs strengthening or can use some technical expertise. It will include as an element also a technical assistance package. In that case, it is part of the loan as distinguished from the grant.

The purpose of the grants is often to help a recipient government work out a priority selection process in its own 5-year plans, so that there will be some consistency in terms of what that plan asks for over the period of 5 years and what might be feasible from the Asian Development Bank, what might be available from the World Bank, and so forth.

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For some concrete examples, there was a fisheries development project in Java for which a grant of $180,000 was made. There was a land area development project in Nepal where there were some very important irrigation issues that had to be resolved from an engineering point of view, at 1.2.

Also, in the technical assistance area, the Bank holds a number of seminars both in procurement and in project implementation, some in-country and some at the Bank itself.

An analogous kind of thing which I think is perhaps best illustrative of what the Bank is trying to do is this: In Bangladesh at this moment they have some gas resources, and the Bank is providing a loan to that country for a technical evaluation of a national energy plan designed to make the most efficient use of that energy over the course of its development. There are some 85 international firms bidding, and I am pleased to say that there are at least three major American firms that are in contention.

Senator HAYAKAWA. I will ask one more question of you, Mr. Bohn, and then we will have Senator Biden ask some questions.

You mentioned that U.S. businesses have been awarded only 7 percent of the contracts led by the Bank since its inception while the Japanese have obtained some 31 percent. What is the explanation for this?

Mr. BOHN. Let me offer two or three possibilities, Mr. Chairman, if I might. Certainly, the Japanese position in the Bank from a cash disbursement point of view is significantly larger than ours. But I would hesitate to give that as a major reason. Over the course of this development process, the Japanese businessman has been very aggressive.

You asked the question earlier what does Japan do for ASEAN, and I guess my answer to that question would be: everything. They have engineers and company representatives everywhere. They come in teams. They work with both the recipient country in the development of their plans. They are at least, as I think has been proven in Asia, very good at providing flexible responses to project needs.

One of the issues that complicates the American businessman's life in Asia is that often in the case of ADB the projects are smaller that might be economical in the case of a company located in the United States. The Japanese have been, I would suggest, more adaptable in many ways in terms of tailoring some of the products that are supplied.

They have done a very aggressive job, but part of it is simply distance. In addition, there are areas in the marketplace out there which I think it is really unrealistic to expect American business to be as competitive as the Japanese.

Senator HAYAKAWA. Thank you.

Senator Biden.

Senator BIDEN. Thank you, Mr. Chairman.

I would like to follow up on that, if I may, and digress for a brief moment. In speaking to the chambers of commerce of America, as I often do, I attempt to point out a view that I hold that American business, with the exception of the large multinational corporations, seems not to have a sense of the marketplace beyond the borders of the United States.

And you mentioned something that intrigued me at the end of your answer to Senator Hayakawa. You said some of these projects are smaller and they do not attract American enterprise because of their lack of scope and lack of size. Is that a product of the attitude of American business generally toward foreign investment, or is that truly an economic problem?

In other words, I will give you a specific case and then I will make sure I am making the point I want to make as clearly as I can. And I would like really for the three of you to respond to this, if you would. Ms. du Pont may know that person I am about to mention. There is a young, very enterprising fellow in the State of Delaware, and his name is Wayne Wyman. He is head of a group of contractors that have a lobbying group. And he is very efficient at what he does. He has a fire sprinkler business that provides sprinkler systems for industrial complexes and high-rise buildings.

We were talking about the competition or lack thereof in that field and about the growth of the industry and where the growth was going to be in the next 5 or 10 years. And I said, well, how much have you done abroad? He was talking about some foreign competition that is competing with him. And I said, well, how much have you done? And he said, well, I would not know how to go about that; what do you mean? How would I do that? Who would I see? How would I begin?

Now, his is a small business, he is a very bright guy, runs a tight ship, has great relations with labor. He was unionized not long ago, which was viewed as the bane of the existence of anyone in his business, and he has turned lemons into lemonade. He has a great operation going.

It would seem to me that that entrepreneurial spirit is the thing that really drove American business for so long. And yet he will not cross the border, whether it be Canada, Mexico, or Thailand. He does not know how to go about it.

Is he an exception? And is the Japanese businessman of the similar size different in terms of his psychology and thinking? I am not talking about the big guy, now. I am not talking about the Hondas of the world and General Motors and the Du Pont companies and so forth. I am talking about the little guy.

Mr. BOHN. The direct response to your question is: Rather than being different, I think he is quite representative of middle-size business in the United States.

Perhaps I can offer a couple of suggestions. First, part of it is a legacy. Our marketplace has been so much larger internally than the Japanese that the dynamics requiring export have simply not been there historically. Please do not hold me to exact figures. but something like 3 percent of our GNP 10 to 15 years ago was represented in the trading sector; it has now, I think, increased to perhaps 6 or 7.

But the internal marketplace where there are no barriers is just very large, and so the dynamics of growth in this country historically have not focused most companies outside the barriers.

Second, in the case of the size issue, it is exactly this size company which has a real economic problem dealing internationally. In my prepared remarks I noted the advantage that I see, at least from my end of the telescope, to the concept at least of the export trading company which permits the actual export process, the market-penetration proc-

cess, the market-evaluation process, essentially to be pooled for a number of these kinds of companies.

A typical evolution of an international company starts with the company selling its products through freight forwarders. It then creates an export department and gets larger and gets an international division which then begins to integrate its entire production process.

Senator BIDEN. You are talking about an American firm?

Mr. BOHN. Yes, an American firm.

Senator BIDEN. Let me stop you there and ask you a question to get some information. This is the very point that I am looking for. Does the Japanese entrepreneur of a similar size just buy a plane ticket and go to Thailand and go shopping? Or does he do what you are suggesting: Does he go through the same process first through a shipper, then sets up an international division, and so on and so forth? My impression is that the Japanese medium-sized and small-sized entrepreneur gets on a plane with a bagful of widgets and goes and knocks on doors in Thailand and wherever else to sell his widgets? Is that incorrect?

Senator HAYAKAWA. You are describing my father's firm. [General laughter.]

Senator BIDEN. Well, obviously, your father was successful.

I am serious. I would like to be educated on this point. That is my impression. Would you comment on that?

Mr. BOHN. Senator, my initial reaction to that would be to go back into the structure of the Japanese industry. Most of the trading that is done by Japan is done by the large companies and the production process is done through a very elaborate subcontracting process where many small companies produce into a very large company.

I would think it would be fairly unusual for a Japanese for the first time to get on an airplane with a sack of widgets and go to Thailand.

What he is more likely to do is to go to the local office in his district of Jetro [Japanese Export Trading Organization], which is one of many export promotional quasi-governmental activities that Japan has, find out a great deal about where he is going, about the marketplace, and probably will first sell his products through one of the large trading companies or one of the medium-size trading companies.

It is unlikely that the producer, in your example in Delaware, would simply get on an airplane and go to Thailand. In the first place, it is unlikely that he would speak the langauge.

In the second place, unlike the American who has access to a lot of market data should he choose to look for it, the Japanese small company is usually so involved in the production on a daily basis that his horizons are not apt to be, without going through this large trading company, broadened to the extent that he would think about it.

Senator BIDEN. That is very helpful. Mr. Albrecht, would you care to respond?

Mr. ALBRECHT. I agree in general with what John gave as an explanation. I might just say in general that on the question of size and competitiveness with which you started out, I think there are some very fundamental competitive advantages for the Japanese with respect to their location and just the generally deeper relationships that they have through investment and through their trading com-

panies. So that there are a lot of efficiencies in that, just in terms of communications and transport.

But getting back to the ADB procurement, there may be items where the Japanese happen to produce goods which are very competitive and very high quality in their own right, so that the combination of the lower basic cost of the piece of machinery plus the transport distance, plus other things, gives them a very substantial advantage that is tough for us to overcome in free competition.

Senator BIDEN. Thank you. Ms. du Pont?

Ms. DU PONT. Yes, Senator. In building on the two sets of remarks that were just given, we, of course, would agree but we have a slightly different approach insofar as a solution may be possible, if it is possible.

We believe that particularly the small- and medium-size entrepreneuer, whom I think you referred to when you speak of Wayne Wyman, has a knowledge problem. He does not know what the markets are. He has no access to market data. We would like to see ourselves become a vehicle to bring the parties together and to promote joint ventures between small- and medium-sized enterprises.

Currently we are running announcements in the Commerce Business Daily and in the Federal Register advertising only in the area of agribusiness enterprises in our 10 target countries. We hope to be involved in a modest way in financing some of those joint venture opportunities and we hope to bring to bear the expertise of the Young Presidents Organization, which has been working closely with us and which, as you know, is very much involved in small- and medium-sized entrepreneurial activity.

Senator BIDEN. Well, this is not an area of expertise on my part, obviously, but it would seem to me that if we are to believe—and I do believe—the statistics that are generated by the State Department, by any of your operations, that if we look 10, 20, or 30 years down the road, part of the game is going to be access to and larger percentages of foreign markets, not merely for major traders.

I have a sense that born out of what you said, sir, that for so long American business has been fat and happy with the biggest and most lucrative market in the world and that it is only as a consequence of penetration of that market have they become more aware of the need to be competitive and we are left with one or two options in a general sense—and you know this better than I.

One is that we either move to protect that market, which I think would be foolhardy, and extremely counterproductive and I think those are the things that start wars more than nuclear arms races or anything else, or we get that Yankee ingenuity functioning not only to build a better mousetrap and compete in this market but to compete in other areas of the world.

From testimony of previous witnesses I heard, not only the Japanese, the Germans, and the French in some cases, having the advantage of time and distance, depending on where the market is, but they even are outcompeting us in places there that is a disadvantage to them, that is not merely that they have a historic tie relationship and understanding of the culture that surpasses ours when dealing in the Far East but also when dealing in Latin America or in Africa.

They still are, as they say down in Dagsboro, whuppin' us at that level. That is why I am particularly supportive of the notion that is being espoused by your shop. Ms. du Pont, and that is somehow American business has to gain access to the knowledge of how to compete and to know that it is not irrational to think about that. I cannot understand how some very fine medium-sized businesses—some $200-million-a-year businesses in America—just are petrified of the notion of competing beyond the territory of the United States.

It is a notion that frightens us. They think in terms of "I do not have an international department. I do not have lawyers who know that area and they do not know." Well, I am talking more than I am asking questions.

Let me ask one more question and then I will cease, with your permission, Mr. Chairman. I guess this would be most appropriately directed to Ms. du Pont because she is in the most innovative aspect of this, and how it flies and if it flies is still a question.

To what extent have your efforts to forge this new area been impacted upon in a negative way by the state of the U.S. economy? Has our hopefully temporary economic difficulty had a serious adverse impact upon your plans? Obviously you do not have what I would call a staggering budget with which to work. We have not been overgenerous, in my opinion, in that regard. That, coupled with the difficulties in the U.S. economy—is there any relationship between the two? Have they caused you any problem?

Ms. DU PONT. Ours is a new program, Senator, so we really have not had the time to implement and see the consequences of the present economic state of the country. We address ourselves to two particular American enterprises: U.S. banks and agribusiness enterprises.

Our response to our announcements, which have only been out now for a week or 10 days, in the Federal Register and the Commerce Business Daily, has been quite strong so far, which may indicate that there is interest in becoming involved in the developing world. We will have to wait and see.

Senator BIDEN. That is something that I believe—I cannot speak for anyone on the committee but me—but I suspect the whole committee will be very interested because one of the questions that we discuss on occasion is whether or not the depressed state of American agriculture at this moment, the agribusiness economy domestically, whether or not that is likely to encourage people to look elsewhere in the hustle for that, or whether the inclination will be to hunker down and turn in.

That is something I realize it is too early to tell, but it is something that I think this committee will be very interested in knowing.

Mr. Chairman, I have about a half a dozen questions for each of the witnesses. I have only two more for Ms. du Pont and several for the other gentlemen on the panel and with your permission I would like to suggest that I submit them to the witnesses and that they be answered in writing for the record.

I do not want to make a lot of work for your staffs. They are nothing very complicated. If it would be all right with you, Mr. Chairman, I would like to do that.

Senator HAYAKAWA. We would be happy to have that done. Without objection, it is so ordered.

Senator BIDEN. Thank you, Mr. Chairman.

Senator HAYAKAWA. Thank you for your questions, Senator Biden.

I would like to make a few remarks at this point because, as I said, my father was in the import-export business. My late father died 7 years ago at the age of 91. I remember him very vividly before the beginning of World War II, before Pearl Harbor. I visited him in 1937.

The great trading companies of Japan are very famous, but there are thousands of small trading companies such as my father had—little, tiny trading companies. They did not manufacture a darn thing, but I do remember that my father had an office of about 20 or 30 clerks and one prerequisite to working in his office was to be able to write and answer letters in two languages other than Japanese or at least one language other than Japanese. In fact, if you did not know Japanese it did not matter.

His offices were in Osaka, Nagoya, and Kobe. All of this was wiped out by American bombers during World War II. But at any rate, very obscure manufacturers, very small ones, would bring merchandise to him and he would sell them. I remember this very vividly. He would sell them in Central America, Asia, Africa, Mexico, Canada, the United States—all over the darn place.

And he always had these clerks, so that someone in the office could read the letter, wherever it came from. I asked him once, don't you ever get a letter in a language that no one else can understand? He said: "If it is an order we understand it and if it is a complaint, we cannot." [General laughter.]

Well, anyway, the war wiped him out completely and he started another tiny little trading company after the war, but that was not as successful as the previous one.

The point I wanted to make is this. As you point out, Senator Biden, we have been content in the United States with a huge internal market to which you can add Canada. But Japan, like Denmark, England and other smaller European countries, has been brought up feeling export or die. We rarely have that feeling in the United States, that you either export or die. But in Japan they have it.

I do not know what percentage of their total gross national product they export, but it must be a very large percentage compared to ours. But the one important thing that we can contribute is that right now we are exporting agricultural products, which is one of the things that I learned through my work in the Agriculture Committee, in enormous quantities to Japan and elsewhere where they have limited land resources, limited agricultural resources.

We send fantastic amounts of agricultural products from California, Illinois, Kansas, and other States to all over the world. Ultimately the point is that this whole matter of international trade underlines our human interdependency all over the world. This is why I am sure you agree with me that every way in which we can fight protectionism, every way we can open up the barriers that exist to trade, is a step in the direction of the unification of humankind.

Forgive me for being sentimental, but my father had as a motto for his company, Unitas Trading Co.: "World Unity Through World Trade." He was very proud of that.

Ms. du Pont, Mr. Bohn, Mr. Albrecht, the committee is very appreciative of your contributions here this afternoon. It is obvious that

you have put a lot of thought and hard work into the papers that you have prepared for us today and the analyses of the opportunities and problems which confront the United States and Southeast Asia.

You, Mr. Bohn, have come all the way from Manila to attend our meeting and I am very grateful to you for having done that. You are a former Californian, I understand.

Mr. BOHN. Yes, Senator, I am.

Senator HAYAKAWA. You worked with the Wells Fargo Bank and my wife recently closed an account there. [General laughter.]

Mr. BOHN. After I left, I hope, Senator.

Senator BIDEN. But only because you are in Manila. [General laughter.]

Senator HAYAKAWA. I want to thank you all very much for your appearance before the committee and helping us in our examination of what the United States can do to further its interest in this very important area of the world, especially Southeast Asia, while at the same time contributing to the betterment of our whole attitude toward trade—international trade—and our position in the world.

The subcommittee will stand adjourned to reconvene on Friday, June 18, for the third in our series of hearings.

[Additional questions and answers follow:]

STATE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. I am interested to learn that we might cooperate with the ASEAN governments in the field of marine science, but I am curious about what exactly you might have in mind. I am also interested in your comment about promoting small- and medium-sized industry. Can you tell us some more about these projects and how they might support U.S. economic objectives in Southeast Asia?

Answer. We are now identifying scientific and technical bodies in the United States and the ASEAN member countries to ascertain their interest in and capacity for cooperation in those areas of the marine sciences embodied in the proposal. A special effort will be made to engage appropriate elements of the private sector.

Our initial thinking on how the United States might respond to the ASEAN proposal is that four avenues of cooperation should be explored: training; identification of and contact with technical counterparts in the ASEAN countries; exchange of information (publications, proceedings of meetings, research documents); and use of the Asian Institute of Technology in Bangkok as the focal point for developing a regional capability in the marine sciences in ASEAN, especially the application of remote sensing technology to fisheries, weather phenomena and pollution. For example, NOAA could train ASEAN nationals in fisheries assessment and coral reef and mangrove resources. NSF is planning research projects in biological oceanography in Indonesia, the results of which will be relevant to all five ASEAN countries and arrangements can be made to share the results of those studies.

On the second question concerning small and medium scale industry (SMI), the United States has a standing request from ASEAN for various kinds of assistance to support the establishment and upgrading of smaller industrial enterprises. We recognize that this is a crucial element in these nations' attempt to attack the mounting problem of unemployment and underemployment, particularly in overpopulated areas of Indonesia, the Philippines and Thailand. There are a great number of American agencies, private and public, including Appropriate Technology International, VITA, OPIC, IESC, and Georgia Tech engaged in support of small-scale industry. The World Bank and ADB are also active in this field. In our bilateral aid programs, Indonesia, Thailand and the Philippines are increasingly looking at new projects to foster private sector growth with a major focus on SMI.

We are studying how these and other activities could be enhanced in response to the ASEAN request.

Question 2. How are the continuing border tensions along the Thai-Kampuchea border impacting on attracting new and retaining existing foreign investment in Thailand?

Answer. The tensions along the border have had no identifiable impact on the level of foreign investment in Thailand. The concern for the security of Thailand is, of course, a factor in the general evaluation of investment in Thailand, but we know of no instance in which border incidents have had a direct effect on operations of any foreign investor.

Question 3. What is Thailand's balance of trade deficit and how does this figure compare to the figures for the last decade and the years immediately preceding the oil embargo of 1973?

Answer. The estimated trade deficit of Thailand for 1981 is slightly less than $2.4 billion. This deficit is about the same as the year-end figure for 1980 ($2.37 billion U.S. dollars) according to the World Bank. The annual deficits in trade are sharply higher than the average for the 1970's which was $605 million. Most of the growth in the deficit has occurred after 1978, although there was a substantial increase in trade deficits after 1974, from an annual average of around $350 million to $661 million in 1975. Much of the increase was attributable to the run-up in petroleum prices, since more than 70 percent of the energy produced in Thailand is based on imported fuel, according to recent estimates. This dependence is expected to remain steady or decline, as natural gas is substituted for imported petroleum products in the generation of electrical energy in the Bangkok area.

Question 4. Who are Thailand's major trading partners and what would be the impact on Thailand's economy if there were any disruption by the Soviets in the sea lanes of communication between the Indian and Pacific Oceans?

Answer. Major Thai exports—rice, tapioca, rubber, tin and sugar—are destined mainly for markets in Japan, the United States and Western Europe. Imports, mainly capital equipment, petroleum and petroleum products, are drawn mainly from Japan, the United States, the FRG, the UK, and oil-producing states. A disruption of the sea lines between Thailand and the ports of the Middle East and Western Europe would have a very serious impact on Thai trade, felt most seriously in the area of energy supply. Imports of crude oil and petroleum products in 1980 made up more than one-third of all Thai imports, and most of these imports were from the Middle East.

AID'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. Describe the Bureau for Private Enterprise's relationship with the IFC.

Answer. We have a cooperative relationship with the IFC in which we mutually share information and, on occasion, jointly review portfolios. We expect to do some co-financing of selected projects with IFC in this fiscal year—e.g., leasing and venture capital firms in selected countries.

Our program differs from that of IFC in several respects. We have an agribusiness focus to our program while they have a broader scope. We can do only debt financing while they have authority to take debt and equity positions in a project. Finally, IFC has limited resources available for advisory assistance. We intend to actively pursue opportunities to provide U.S. technical assistance particularly in such areas as capital market development, investment laws and management training.

Question 2. What criteria does your Bureau use in selecting agribusiness projects and could you please provide example?

Answer. Many of our fiscal 1982 projects financed will have an agribusiness focus. Criteria used for determining eligibility for financing include: demonstration of significant development impact (such as employment creation), foreign exchange earnings, and technology transfer among others. For example, we are currently working with local commercial financial institutions in two countries (Thailand and Kenya) to establish an agribusiness fund in each one. These funds, made up of the AID loan and an equal counterpart contribution from the respective institution, would be used to finance small and medium-sized agribusiness activities in the two countries. We are also considering a loan to an Indonesian leasing company which would make capital equipment available to local firms.

Question 3. Can you describe how the Bureau for Private Enterprise coordinates with OPIC, TDP, and USTR? Is there a formal mechanism established to accomplish this or is one needed?

Answer. We have a working, cooperative relationship with OPIC and TDP and an informational one with the U.S. Trade Representative's Office. Key staff in the PRE Bureau meet with OPIC management on a biweekly basis to share information on potential investment/reconnaissance missions. There is an open invitation for OPIC and PRE to participate in each other's respective missions. We also exchange valuable information on potential feasibility study and project-related financing. We find that OPIC's and our own activities are very complementary to each other. With the information that PRE's reconnaissance missions provide, OPIC can evaluate the feasibility and desirability of a follow-up investment mission.

There is a natural coordination with TDP in that it originated as part of the AID program and part of its function is to stimulate follow up programs which would be authorized by AID. Moreover, TDP coordination is insured in that, the Director of the Trade and Development Program is a Deputy in the Private Enterprise Bureau at A.I.D.

Question 4. Regarding the Bureau's invitation of proposals from agribusiness firms, what responses have you had? How will you go about selecting firms? How will you publicize your efforts other than through the Federal Register and the Commerce Business Daily?

Answer. By the end of June we had received several hundred responses to our announcement in the Federal Register and the Commerce Business Daily. In addition, we have set up a mailing list of approximately 250 agribusiness firms whose names were provided to us through several sources including the U.S. Chamber of Commerce. We made a direct mailing to these firms and have already received numerous follow-up requests/inquiries and many potential project proposals.

[Whereupon, at 3:44 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Friday, June 18, 1982.]

U.S. POLICIES AND PROGRAMS IN SOUTHEAST ASIA

FRIDAY, JUNE 18, 1982

UNITED STATES SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:23 a.m., in room S–116, The Capitol, S. I. Hayakawa (chairman of the subcommittee) presiding.

Present: Senator Hayakawa.

Senator HAYAKAWA. The Subcommittee on East Asian and Pacific Affairs will come to order.

It is a pleasure to welcome Mr. James P. Rooney, Jr., chairman of the Asia-Pacific Council of the American Chambers of Commerce from Bangkok, Thailand, who will brief the committee on his assessment of U.S. economic and commercial prospects in the area. Mr. Rooney is accompanied by Mr. Oakley Johnson, director, Asia-Pacific Affairs and executive secretary of the ASEAN-U.S. Business Council at the U.S. Chamber.

Welcome to you, Mr. Rooney and Mr. Johnson. It is a pleasure to have you with us. I understand you arrived in town only last night from Bangkok, Mr. Rooney, and I know from personal experience that this is a long and arduous flight. We are appreciative of your making the effort to accommodate the committee's scheduling problems and to be with us so soon after stepping off the plane. We shall turn to your briefing in just a moment, but first I would like to give you a little background on these haerings, since you have not been with us or seen the record of the hearings as yet. Since I became chairman of the subcommittee in January of last year, I have focused the subcommittee's attention primarily on Southeast Asia. In the midst of wars in the Mideast, antinuclear demonstrations in Europe and this country, START negotiations with the Russians, a summit at Versailles, and a war in the South Atlantic, we tend to lose sight of longer range considerations in other parts of the world. We tend to overlook the tremendous importance to us of Southeast Asia and particularly our friends in ASEAN—Indonesia, Malaysia, the Philippines, Singapore, and Thailand. We are less attentive than we should be to the tremendous interests we have in common with these countries—political interests, security interests, and, perhaps above all, economic interests.

We have, therefore, been examining these vital common interests in this series of hearings, in an effort to improve our knowledge and strengthen our relations with our ASEAN friends. We have heard from the State and Defense Departments, AID, the Asia Development

Bank, and the Overseas Private Investment Corp. We will turn now to the view as seen from the private sector. As President Reagan has so often said, we must rely heavily on private enterprise to promote trade, development, and U.S. investment in the developing countries of the world in order to improve their way of life as well as our own.

We are delighted to have you with us this morning, Mr. Rooney, and look forward to your assessment of this very important subject.

Mr. Rooney, I would appreciate it if we could enter your prepared testimony in the record and proceed directly to our questions.

Mr. ROONEY. I would appreciate it if you would do that, sir.

[Mr. Rooney's prepared statement follows:]

PREPARED STATEMENT OF JAMES P. ROONEY, CHAIRMAN, ASIA-PACIFIC COUNCIL OF THE AMERICAN CHAMBER OF COMMERCE (APCAC), BANGKOK, THAILAND

My name is James P. Rooney, Chairman of the Asia-Pacific Council of American Chambers of Commerce (APCAC), on whose behalf I appear today. I am also Managing Director of J. P. Rooney and Associates, Ltd., a business consulting firm specializing in the fields of investment, management, personnel, computerized operations, and corporate/individual taxation. Our firm is headquartered in Bangkok, Thailand, with offices in Hong Kong and Singapore. It has been my privilege to work in the exciting region of Southeast Asia for the last 12 years.

APCAC was formed in 1968 to represent the views and interests of some 6,000 U.S. business executives living and working in the Asia/Pacific region. It presents its views to the Legislative and Executive branches of the U.S. Government and to U.S. business, labor and the American people. Its member AmChams are located in Australia, Guam, Hong Kong. Indonesia, Japan (Tokyo and Okinawa), Korea, Malaysia, New Zealand, Philippines, Singapore, South Africa, Taiwan and Thailand. Attached to this testimony is a brief description of APCAC objectives and a copy of the policy resolutions adopted at our last regional meeting held in March of this year in Hong Kong.

At the outset, let me congratulate this subcommittee for holding hearings on U.S. economic interests within a most important area of the world. The five countries of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Philippines. Singapore and Thailand—are all strong growth economies with significant growth potential for the forseeable future. As a regional entity, ASEAN is developing slowly but surely. We have witnessed over the past several years increased political cooperation among the five countries which has, in turn, led to increased economic cooperation. But, we should not draw comparisons between ASEAN and the highly structured European Community (EC). Instead, ASEAN is working toward a cooperative environment that has yielded, and will yield, results in cultural, economic, commercial and political terms for all of its 265 million people.

The United States has an important role to play in furthering ASEAN objectives. First and foremost is the need to develop a greater awareness of the strategic and economic significance of the ASEAN region to the American public. Regrettably, while established 25 years ago, ASEAN is far from a household word in the United States. despite the fact that it represents our fifth largest trading partner, and is the location of up to $10 billion in U.S. foreign investment. Furthermore, U.S. business people resident in the ASEAN region are the first to recognize the growing opportunities for U.S. trade and investment—based on the many public and private projections that classify the ASEAN region as one of the highest, if not the highest, growth areas in the world for the balance of this century.

Recognizing that our attention tends to focus on crises or other short-term challenges, we should not divert attention from the significance of ASEAN simply due to pressures in other parts of the world.

Clearly, an important means by which the United States can promote ASEAN objectives is through expanded trade, investment and joint ventures APCAC fully supports the U.S. policy to encourage greater private sector participation in economic development and ASEAN. But, we also point out the need to maintain an adequate level of bilateral and multilateral official development assistance to

address the many needs of ASEAN that cannot be fully satisfied by the private sector.

Since its establishment in 1979, the American Chambers in the ASEAN countries have participated in, and supported the activities of the ASEAN-U.S. Business Council. This joint undertaking, between senior business representatives of the United States and ASEAN, provides a unique channel for discussion of current economic and commercial policy issues. Also, the Council has played a very positive role in carrying out joint projects and developing policy recommendations to enhance mutually beneficial trade and investment.

The U.S. Government must devote continued, high-level attention to ASEAN through participation of top Congressional and Executive branch officials in ASEAN meetings. U.S. participation in meetings held this week in Singapore with the ASEAN Foreign Ministers, as well as regular ASEAN-U.S. Economic Dialogues, are to be supported and strengthened.

Despite the growing strength and influence of the private sector in most ASEAN countries, U.S. Government policy should be sensitive to subsidized competition as in certain agricultural and commodity sales. Furthermore, our major trading competitors in Europe, Japan and Australia have been quick to recognize the emerging potential of ASEAN as a market for their products and services, and as a source of supply for raw materials and light manufactured products. The governments of these countries have provided very effective support to their businesses in competing in the region. U.S. policy must recognize that much of this support is concessionary, if not predatory, in nature. Therefore, U.S. programs to provide competitive export financing, pre-feasibility studies, investment insurance and other forms of assistance need to match those of our competitors.

For many years, APCAC has drawn attention to the serious disadvantages created for ourselves by numerous disincentives enacted into U.S. law. No area of the world provides better evidence of the detrimental affects of these disincentives than does the ASEAN region. We are very pleased to note that the sentiment in Congress today seems to favor removal or modification of disincentives affecting foreign taxation, Foreign Corrupt Practices Act, antitrust laws and other self-imposed barriers. Speedy action is urgent toward the complete resolution of many of these continuing disincentives.

It should be noted that APCAC supports the freest possible flow of goods, services, capital, technology and people between the United States and ASEAN. In this regard, we are mindful of not only the many remaining tariff and non-tariff barriers confronting U.S. business in the ASEAN region, but also the growing concern within the region over perceived protectionist sentiment in the United States. We must be cautious of non-tariff barriers in the United States which might be detrimental to trade with ASEAN, particularly any new protectionist legislation.

Finally, the countries of ASEAN could help enhance their own image in the United States by taking a more visible posture on behalf of their interest, by increasing frequency of interaction with U.S. business and other private sector representatives, and by reducing their own disincentives to trade and investment.

Again, Mr. Chairman, let me congratulate you for holding these hearings, and thank you for this opportunity to present the views of American business based in the Asia/Pacific area.

[Attachment]

THE ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE (APCAC)

The Asia-Pacific Council of American Chambers of Commerce (APCAC) was formed in 1968 to represent the views and interests of some 5,000 American business executives in the Asia-Pacific region in the legislative and executive branches of the U.S. government and with U.S. domestic business, labor and the American people.

The objectives of APCAC are:

To promote and represent the viewpoints and interests of American business in the Asia-Pacific area;

To study and develop areas of mutual interest among member AmChams in the region;

To strengthen the influence of member AmChams in matters reflecting their individual and regional interests; and

To present the views of American business in the respective host countries to agencies and organizations within the region and in Washington, D.C.

From the outset, APCAC has emphasized the need for a new U.S. economic diplomacy in the region. It has stressed that the greatest shortcoming of U.S. policy has been the absence of a coordinated foreign economic program. APCAC has called for a greater emphasis on economic interests and less on military and political considerations.

In this connection, APCAC has strongly recommended the establishment of a U.S. Department of International Trade and Investment (DITI) with authority over government planning, administration and coordination of U.S. "Economic Diplomacy."

APCAC has also supported (1) new legislation to provide the necessary government support to promote U.S. business interests abroad, including export finances and taxation of U.S. citizens abroad; (2) the goals and objectives of the Association of Southeast Asian Nations (ASEAN); and (3) the U.S. Eximbank, OPIC and the Asian Development Bank; and has (4) opposed the proposed elimination of the Domestic International Sales Corporation (DISC) and the tax deferral on foreign earnings; (5) advocated the right of Americans overseas to vote in U.S. elections; and (6) cautioned the U.S. Congress on the extraterritorial application of U.S. laws and regulations affecting American competitiveness in the areas of antitrust, antiboycott, taxation, human rights, environmental standards, information disclosure and export controls.

APCAC holds two meetings a year in the region, which are attended by more than 100 delegates from 13 countries. In addition, APCAC carries out a regular series of briefings with the chiefs of mission and economic/commercial officers in the region and sends a delegation to Washington each spring to meet high level government, business, press and labor officials.

[Attachment]

U.S. Business Leaders Endorse Private Sector Role But Call For Caution in Withdrawal by Administration

Hong Kong, March 7.—One hundred and fifty American business leaders from 13 countries in the Asia-Pacific today pledged their continuing support for private sector involvement in expansion of trade and investment in the regon. In endorsing the Reagan Administration's initiatives in this area, however, they cautioned the Government against hasty withdrawal from trade and export support programs until alternatives are in place.

Meeting under the auspices of the Asia-Pacific Council of American Chambers of Commerce (APCAC), the delegates forcefully reminded the Administration that private enterprise does not have the resources to replace the Government role in such areas as export financing.

Turning to trade disincentives, APCAC called on the United States to redouble its efforts to break down host-nation barriers to freer trade and investment.

APCAC said strong and continuing pressure was needed to ensure national treatment for U.S. companies which are currently disadvantaged as a result of discrimination by host nation governments.

In wide-ranging deliberations, APCAC also urged the U.S. Congress to enact changes in the Foreign Corrupt Practices Act, which it said contributes in a significant way to lost business opportunities.

APCAC, the regional umbrella organization which represents over $20 billion in U.S. investment in the region, also identified these other four areas as top priority issues:

1. Competitive U.S. Export Financing—calling for an increase to $8.7 billion in Exim Bank lending authority at competitive rates and terms for all products without unit or contract value restrictions.

2. U.S. Income Tax—to resist efforts to dilute the beneficial effects of the 198i tax laws.

3. Patents and Copyrights—urging adequate protection for U.S. patents, copyrights, property and technology.

4. Foreign Corrupt Practice Act—calling for swift adoption by the House of the Chafee Bill already passed by the Senate.

APCAC was formed in 1968 to distill the concerns of American business in the Asia-Pacific and to relay these concerns to Washington. In recent times, the organization has been working actively to develop a joint approach to many issues with American labor unions.

Represented at the meeting were delegates from Australia, Japan, Hong Kong, Thailand, Singapore, Malaysia, Philippines, Republic of China, Indonesia, Korea,

South Africa, New Zealand, Saipan, Guam and Hawaii. Also attending were United States Government officials from Washington and the United States Chamber of Commerce.

ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE, SEMI-ANNUAL MEETING, HONG KONG, MARCH 4–7, 1982

RESOLUTIONS

Protectionism

APCAC expresses its concern with the continued existence in many Asian countries of tariff and non-tariff barriers which far exceed those facing Asian goods and services in the U.S. market.

APCAC reaffirms its support for the Administration's efforts to open foreign markets to U.S. products, services and investment through multilateral and bilateral negotiations based on principles of free trade and national treatment.

APCAC urges concerned governments to take the immediate actions necessary to redress inequalities in access to markets, in order to ward off a resurgence of protectionist sentiment which could retard world trade and investment.

Export financing

One in every seven Americans working in manufacturing plants is involved in the production of manufactured goods sold abroad. One of the important ways the U.S. can help create additional jobs plus retain existing jobs in our manufacturing industries against severe foreign competition is to provide the Eximbank with additional lending authority, while ensuring that Eximbank's programs are competitive.

Each $1 billion increase in Eximbank's annual lending authorization will result in an estimated $1.3 to $1.5 billion in incremental exports, 35,000 to 40,000 additional jobs and $1 billion benefit to the federal budget (not counting the tax revenues on the export and subcontractor sales). Eximbank plays a significant role in almost every state in the nation in terms of jobs and trade. Effective Eximbank programs bring incremental and permanent income to the U.S. Loss of these sales is not a deferral of demand but a permanent loss and often an ongoing erosion of the U.S. market share.

APCAC supports the U.S. Government commitment to a strong export policy based on removal of both disincentives and artificial stimulants to export, increased reliance on the free market and allowing the private market to determine priorities.

However, the U.S. cannot expect to convert overnight the other 21 countries in the Consensus on Guidelines for Officially Supported Export Credit to this policy. The recent negotiations show that this objective can only be achieved gradually.

In the interim, U.S. Government export financing programs must: "provide guarantees, insurance and extensions of credit at rates and on terms and other conditions which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters."

Matching foreign government-supported export financing interest rates is more important than assuring that the Export-Import Bank stays in the black. The Export-Import Bank is an export promotion tool, not a bank.

APCAC urges Congress and the Export-Import Bank to not unilaterally disarm! High priority should be given in fiscal year 1982/fiscal year 1983 to making far-reaching improvements in the U.S. export financing programs:

A fighting-sized Eximbank lending authority covering all products without unit or contract value restrictions to "neutralize" the competitive advantages other countries' exporters currently have. APCAC believes that Eximbank should have lending authorization of $8.7 billion consisting of $5.7 billion for long term and $3.0 billion for medium term financing. This means over 300,000 jobs and an estimated $13 billion in exports.

Revised Eximbank programs which are cost effective, competitive and promote a broad spectrum of U.S. products:

Interest rates and fees competitive with the rates and fees of other OECD countries and adequate financing available for all eligible products without unit or contract value restrictions.

Eliminate self-imposed sub-limits on length of terms.

Increase coverage to meet foreign competition to at least 75 percent of contract value.

Offer a yen option competitive with Japan's 9.25 percent p.a. with all Japanese governmental approvals already arranged or assured.

Reduce paperwork and time required for obtaining commitments and loans.

Optimized use of Eximbank funds through effective targeting at additionality on both medium term and long term financing where sales meet these three conditions:

a. Foreign competition is known to be and/or can be presumed to be benefiting from foreign government supported export financing.

b. Sale won't go forward without U.S. Government financing support *and*

c. Sale will be lost to foreign competitor if not supported i.e. not just postponed.

On a longer term basis, APCAC's suggests that as part of an overall-international economic policy, it is timely to consider a unified, comprehensive approach to U.S. export and investment credit and guarantee programs for improved effectiveness and efficiency. Attention should particularly be focused on coordinating use of field representatives and cofinancing by Eximbank, OPIC, AID, FCIA and private enterprise. We also support the initiative by Senator Heinz to draft legislation to address some of the long term requirements to strengthen U.S. export financing competitiveness and funding.

U.S. income tax—Section 911

APCAC considers the revision of IRC Section 911 in the Economic Recovery Tax Act of 1981 as a positive step in eliminating disincentives to U.S. citizens working abroad. This revision helps U.S. citizens compete on an equal basis with foreign competitors and encourages U.S. citizens to live and work overseas to promote the sale of U.S. goods and services. Accordingly, APCAC strongly opposes the inclusion of the Section 911 benefit as a tax preference item for purposes of the minimum tax or similar legislation which would be detrimental to the competitive position of U.S. business in the world market place.

Industrial and intellectual property

APCAC calls upon the Government of the United States to exploit every appropriate opportunity to express its serious concern over inadequate protection of American industrial and intellectual property rights abroad. This issue should be raised, for example, in all U.S. trade discussions with APCAC member host governments.

APCAC encourages APCAC member host governments to recognize the growing importance of industrial and intellectual property rights by enacting more effective patent/trademark laws and enforcement systems and allow a reasonable fee for their use.

APCAC calls upon the U.S. Government and all APCAC member host governments to oppose attempts within WIPO to revise the Paris Convention in such a way as to weaken the international patent and trademark systems.

APCAC urges the U.S. Government to negotiate, under the aegis of GATT, an international code to discourage international trade in counterfeit goods, and endorsing, in this connection, the draft GATT Anti-Counterfeiting Code.

Foreign Corrupt Practices Act of 1977 (FCPA)

APCAC congratulates the U.S. Senate in general and Senator Chafee in particular for the passage in November 1981 of S. 708 amending the Foreign Corrupt Practices Act of 1977.

APCAC urges that committee action on H.R. 1530, the Companion Bill of S. 708 be completed and that the Bill be favorably and urgently reported out for House action.

Passage of H.R. 1530 in this session of Congress is needed to remove major obstacles to American competitiveness overseas.

In this connection, we reiterate our concerns that the FCPA as it now stands contains onerous provisions.

GATT code for services

APCAC recognizes the increased interest by the U.S. Government in the services sector but calls for more active support of American service industries abroad. APCAC encourages continued efforts aimed at "GATT Code for Services" as enunciated recently by U.S. Trade Representative Brock. Secretary of State Haig also stressed the importance of American services in his appearance before the Senate Subcommittee on International Trade.

Service industries such as banking, communications, insurance, engineering, accounting, trading etc. make a significant contribution to the U.S. balance of payments. Recent studies indicated that contributions from these industries to the services account of the balance of payments are growing even more rapidly than are U.S. merchandise exports as a whole. The value of this contribution must be recognized, strengthened, and actively supported by a GATT Code.

National treatment for U.S. banks

APCAC endorses U.S. Government policy that provides national treatment for foreign banks operating in the U.S. and promotes national treatment of U.S. banks' operations in foreign countries.

Recent efforts by the State Department, Treasury Department and U.S. Trade Representative's Office to include services, and especially banking, as part of U.S. trade policy are encouraging.

However, in many countries in Asia, U.S. banks do not receive national treatment. These countries include, among others, Korea, Taiwan, Thailand and Australia.

APCAC resolves that the U.S. Government should actively promote national treatment of U.S. banks operating in Asia, make the treatment of U.S. banks an important part of its overall relationship with foreign governments and include banking in bilateral trade negotiations related to services conducted by the U.S. Trade Representative.

U.S. export trading companies

APCAC calls for the Houses of Representatives of the United States to promptly enact legislation such as S. 734, the Export Trading Company Act of 1981. This will positively encourage and facilitate the formation and operation of export trading companies which can support the U.S. export effort in the same way that Japanese and other foreign trading companies support their countries' exports. APCAC expects that the chief beneficiaries of such legislation would be small and medium-size manufacturers that today are not large enough to enable them to export effectively. APCAC believes such legislation will be a concrete means of redressing the current trade deficit by expanding U.S. exports effectively and competitively in world markets thereby creating more jobs at home and abroad. Legislation must amend existing banking exclusions, anti-trust constraints, and provide additional incentives to export U.S. products and services. Upon passage, the business community and the U.S. Government should undertake efforts to promote and encourage the establishment of such companies.

APCAC also cautions that any quantitative limitation on operations of Export Trading Companies would hinder these companies in competing freely with foreign trading company competitors.

U.S. Government policy toward American investment overseas

APCAC is pleased to note that the U.S. Government has changed its policy on American private sector investment overseas from one of neutrality, of neither encouraging nor discouraging such investment, to one of actively promoting investments abroad.

APCAC calls on the Government to clarify the remaining ambiguities that seem to exist in the effective implementation and coordination of this new policy.

U.S. disincentives to trade

To improve America's ability to compete in foreign markets in the future and to strengthen the U.S. trade performance in goods and services, the United States must increase the growth of the market place, not shrink it, by removing the disincentives which limit American export and investment, e.g.:

Extra-territorial applications of U.S. anti-trust legislation in cases where there is no impact on U.S. commerce. APCAC calls for the establishment of a Presidential task force to review and rewrite all U.S. anti-trust legislation as it applies to the competitiveness of American business abroad. APCAC draws the attention of the U.S. Government to the "White Paper on U.S. Manufacturing Investment" prepared in February 1980 by the American Chamber of Commerce in Japan and the recommendations for actions in the Investments Working Paper presented at the October 1980 APCAC Conference in Kuala Lumpur.

Ambiguous standards and the dual jurisdiction (S.E.C. and Justice) of the Foreign Corrupt Practices Act. APCAC supports action along the lines of the Chafee/Rinaldo Bills S. 708/H.R. 1530.

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Excessive U.S. regulations and red tape (E.P.A., O.S.H.A. etc) which unnecessarily raise the cost of U.S. products.

Unreasonable restrictions and delays in technology transfer through the failure of the Commerce Department to implement fully the Export Administration Act of 1979 and subsequent administration policy announcements.

Lack of competitive Double Taxation Treaties and/or the presence of Treaties in urgent need of updating to address today's business proceedings.

Foreign commercial service

For many years, APCAC has called for a reorganization of the Agencies of the U.S. Government to achieve an integrated international trade and investment policy.

APCAC continues to call for the ultimate establishment of a structurally acceptable Department of International Trade and Investment (DITI) to provide the framework that is required if Americans are to be competitive in international markets.

Meanwhile, a priority effort in 1982 will be to continue to work closely with the existing Foreign Commercial Service (FCS) in its respective overseas posts, to capitalize as fully as possible upon changes in U.S. Government organization for international trade and investment. Our position on the effectiveness of the FCS will be reviewed at the 1983 spring APCAC meeting.

Recognizing that the current FCS falls far short of being a DITI, we:

1. fully endorse the current role of the FCS;
2. strongly urge the United States Government to continue to implement its new positive policy toward overseas investment and give a mandate to the FCS actively to promote U.S. investment abroad;
3. call on the United States Government to ensure that the FCS, its major foreign trade development Agency, is adequately funded and staffed;
4. recommend that FCS be given flexibility in the application of an adequate budget, including travel and representational allowances, so that it can place competent personnel and necessary funds in overseas markets where they are most needed and,
5. encourage the United States Government to afford more freedom to the FCS in pursuing its objectives, and provide flexibility for Field Offices so they can have an enlarged responsibility for policy formulation on trade development and investment.

Labor participation

APCAC believes that efforts to arrest the nagging trade imbalance and restore the United States to preeminence as an exporter will depend in a significant way on the support labor unions are prepared to give to such a campaign. Accordingly, APCAC restates its willingness to work with labor to achieve these goals, and encourages labor leaders to join it in its twice-yearly meetings which explore many of the obstacles clogging the way to freer trade and investment and job creation.

ASEAN

APCAC applauds the expansion of public and private sector contracts between ASEAN and the U.S.

APCAC recognizes the importance of the U.S. relationship with ASEAN and encourages the U.S. Government and the American business community to ensure continued progress. Programs to facilitate two way trade and investment and a strengthened dialogue should be continued.

Small business

APCAC calls upon the Congress of the United States to immediately change provisions of the Internal Revenue Code which discriminate against small business and professional entrepreneurs abroad. Specifically we recommend to the Congress the following actions:

The elimination of the language of Sec. 911(d)(2)(b) which allows only 30 percent of the entrepreneur's share of net profits to be considered as earned income for the purposes of claiming the Sec. 911 exclusion of income earned abroad. This provision virtually limits the exclusion available to entrepreneurs and virtually forces them to establish foreign corporations in order to limit their personal tax liability.

The changing of the language of Sec. 911(d)(6) to permit the deduction of all legitimate business expenses in determining earned income. If such expenses are not allowed, entrepreneurs are effectively denied the same benefits as corporate employees. It is another example of tax provisions that force small businesses to operate abroad in corporate form with a significant increase in cost and administrative burden.

The elimination of Sec. 6046 requiring the reporting of the acquisition of 5 percent or more of the shares of a foreign corporation within 90 days of such acquisition. Although most Americans are completely unaware of this obscure provision of the law, failure to file within the 90 day period can result in the imposition of a $1,000 civil penalty. If the Congress feels that such a report is necessary, then we recommend that the report be filed as an attachment to the income tax return for the year of the acquisition. Since the civil penalty is almost always imposed upon entrepreneurs solely because of their ignorance of the law, we recommend that the penalty for failure to file such return be eliminated.

Major projects

APCAC recognizes the contribution a current regional major projects list can make the United States exports. Accordingly, the Council strongly urges a more determined effort by both business and Government to compile and disseminate regular regional updatings of such a list for distribution to both corporate headquarters and field offices. Further, APCAC calls for a major increase in Grant Feasibility funds to ensure a continued and expanded role for American business in projects in the Asia Pacific.

Visa waiver

APCAC recognizes that tourism and travel are currently the third largest retail industry in the United States; foreign travel into the United States is currently estimated to bring in, directly and indirectly, revenues of $28 billion.

APCAC further recognizes that U.S trade and export of products and services will only increase with easier access to the United States that would enable foreign employees of U.S. firms to readily attend seminars, conferences, and technical or sales meetings.

Therefore, APCAC supports President Reagan's attempt to update sections of the Immigration and Nationality Act and calls upon the U.S. Senate and House of Representatives to enact legislation that would grant visa waivers for up to 90 days to citizens or nationals of countries willing to extend reciprocal privileges to U.S. citizens.

Trade centers

APCAC restates its firm support for Trade Centers or International Marketing Centers (IMC), readily recognizing the important role these facilities play in stimulating U.S. exports.

APCAC also supports the equal role of private enterprise in trade exhibition activity. However, it believes that in countries like Australia, where the IMC has its own exhibition space, these facilities offer small and medium size companies and companies new to market an undeniable stimulus to venture into important new export fields. Accordingly, these facilities should be retained.

Trade promotion

APCAC believes that trade show programs of the private sector and the U.S. Trade Centers are an effective part of the U.S. export promotion program and contribute positively to U.S. trade.

APCAC strongly urges the private sector and the U.S. Government to broaden their export promotion activities in the Asia Pacific region and to consider additional private sector and U.S. Government complementary export promotion programs.

Asian Development Bank

The Council reaffirms it strong support for the Asian Development Bank and urges the Congress to provide the full level of authorization and appropriations for U.S. contributions to the Asian Development Fund.

Domestic International Sales Corporation (DISC)

APCAC believes that United States exporters need liberal and expanded DISC or DISC-type benefits. It is the only tax benefit they have to counteract the large tax incentives bestowed on their foreign competitors.

Accordingly, APCAC strongly opposes the inclusion of the DISC benefits as a tax preference item and believes the benefits should not only be retained but also expanded to cover services and provisions made available to the new export trading companies. In addition, a roll-back of the restrictive 1976 Tax Reform Act provisions should be made.

To provide DISC operators with more confidence, the rules should be modified so that failure to meet DISC qualifications would only result in the loss of benefits for the particular year involved. It should not result in the loss of all DISC deferral in the past.

The DISC regulations need to be rewritten in such a way that the basic requirements for the qualifications of a DISC are straightforward, clearly shown and can easily be made by companies that are indeed exporting, and thereby satisfying the purpose for which the DISC provisions were enacted.

Overseas Private Investment Corporation (OPIC)

APCAC supports the Overseas Private Investment Corporation (OPIC). OPIC provides, at a profit to the U.S. Government an essential service in supporting U.S. private investment in developing countries in Asia—investments which bring about essential development benefits to host countries and an extension of the export of U.S. goods and services.

To improve the U.S. competitive position in the region, APCAC supports a five-year extension of OPIC operating authority and action on existing restrictions that inhibit OPIC's effectiveness, specifically:

Removal of the 1978 limitation on the countries in which OPIC's services are available based on an arbitrary GNP per capita formula;

Substantial modification of the provision that prohibits OPIC from insuring or financing labor intensive projects. These projects are often of the greatest developmental benefit to host countries;

Elimination of guidelines on total portfolio which discriminates as to availability of OPIC insurance and financing based on size of company; and

Elimination of arbitrary OMB guidelines which are not mandated by Congressional action.

Security in the Asia Pacific

APCAC urges the U.S. Government to maintain a strong military presence in the Asia Pacific in view of the continuing threat to the peace and stability of the region and the need to continue to demonstrate to our Asia Pacific allies the U.S. commitment to the defense of the region.

Senator HAYAKAWA. Mr. Rooney, you suggest that it would be beneficial for the Congress to be represented at ASEAN meetings. Do you mean an interparliamentary exchange, such as we had with Western European countries or congressional representation at meetings, such as the ASEAN ministerial meetings taking place in Singapore this week?

If the latter, what would be the benefits on both sides of this congressional participation?

Mr. ROONEY. My comments were based on the feeling in ASEAN that a greater degree of participation between the two countries would be best.

I think the ASEAN meeting that is going on now is very appreciative of the fact that the Secretary of State was to be there. They were disappointed that he could not be there, but were very understanding of the fact that he could not.

ASEAN is very sensitive to its position and to the relations and importance that others attach to it. Indicative of this, I think, is the reaction of the downgrading of the representation from the EEC, to which the response of ASEAN was to remove the EEC from the dialog, until such time as it decided to send its previous representation.

I would feel that the greater amount of dialog and interchange that we could have between ASEAN, both in the political and eco-

nomic areas, would be to the greater benefit of both countries. I feel that we need to create and foster a greater understanding of ASEAN; that ASEAN also would benefit from a greater understanding of our own position.

Senator HAYAKAWA. The EEC withdrew, is that what happened?

Mr. ROONEY. There was a representative from the EEC. I forget exactly who it was. They advised ASEAN that he could not attend.

At that point, I understand that the ASEAN Secretariat stated that, since he could not attend, they would simply remove the item from the agenda.

They subsequently responded that they found that the previous representative would, indeed, have time to come.

Senator HAYAKAWA. You speak of the fact that U.S. Government policy should be sensitive to subsidized competition, as in certain agricultural and commodity sales. Would you tell us a little more about that?

Mr. ROONEY. The ASEAN countries note with a great degree of interest the subsidized efforts or subsidized sales, such as commodity sales to Korea, and U.S. activities with regard to tin stockpiles because these are areas that are of importance to the ASEAN countries. Thailand, for instance, is an exporter of rice; so they are sensitive to any subsidized rice sales within the area.

The feeling is, if the United States is a supporter of free trade, we should perhaps demonstrate this free trade by not promoting subsidized sales.

Now, ASEAN also is very realistic. They recognize the impact and the significance of several of the areas in the United States, one being the agricultural sector. However, it is still a bit difficult to explain why we would like to support free trade, reduction of any tariff or nontariff barriers, or reduction of subsidies at the same time that we support subsidized sales in the area.

Senator HAYAKAWA. We don't subsidize rice, do we?

Mr. ROONEY. We have. There was a sale—and I cannot recall whether it was rice or maize—within the last month or so to Korea—I believe it might have been maize—which was directly competitive with Thailand.

Senator HAYAKAWA. I would also like a little clearer description of what you call the concessionary, if not predatory, support that ASEAN governments provide to their local businesses. What would you have the U.S. Government do to effect this support?

Mr. ROONEY. I think here we should recognize several factors.

First, probably Europe, in particular, Germany, France, the United Kingdom, Australia, and Japan, recognize and pay more attention to ASEAN and are paying more attention to increasing their market share in the area than are we.

The ASEAN countries are growing economies. They are exciting economies to be in. In the 12 years that I have been there, I am amazed at the growth that has gone on there.

They will, from time to time, need to take certain efforts that they feel would be necessary to support their own economies. I think it is important to note, however, that they have very strong private sectors in many of these countries, in particular in Singapore, Thailand, and the Philippines.

The objectives and goals of these private sectors are very much the same as the objectives and goals of American business working within the area. We both support and endorse the activities of these governments to move away from any type of tariff and nontariff barrier.

As we watch our competition, we notice that our competition is offering concessionary, if not predatory, terms in their dealings within Asia, and within ASEAN. We would like very much to be able to compete equally, to have a basis where we are on an equal footing with our competitor nations.

I would like to extend this to bring in some of the other areas which would handicap American business, the disincentives to trade which would incorporate, for example, the Foreign Corrupt Practices Act, antitrust regulations, and extraterritorial applications of certain acts, where U.S. law hinders or restricts our ability to compete effectively in some of these areas.

Senator HAYAKAWA. You mentioned prefeasibility studies, and that seems to be one of the keys to expansion of trade and investment in the area.

How can the United States, either the Government or the private sector, expand the availability of funding for these prefeasibility studies?

Mr. ROONEY. There are several programs currently. There is the trade development program, which offers partial financing for prefeasibility studies for projects; there are various investment and "recon" missions that have gone out to the ASEAN area to identify sectors of interest.

I think the benefit here is that we—"we" being the United States—are now taking a more aggressive position than we have in the past. Our competitor nations, and in particular Japan, have been very active in providing Government support in identifying or studying market opportunities in the area to assist the private sector companies when they come in. The provision of greater funding or prefeasibility studies, such as in trade development, greater participation in trade missions, greater activity and interchange in these groups going back and forth to ASEAN, will help to create a greater awareness of the opportunities within the area.

Senator HAYAKAWA. You mentioned the disincentives enacted in U.S. laws and self-imposed barriers which impede the expansion of U.S. trade and investment. You cite as example taxation of U.S. citizens abroad.

That has been considerably modified, has it not?

Mr. ROONEY. That has been modified. However, I understand that there are attempts to modify it again.

This was our No. 1 priority. We spent a great deal of effort trying to explain what we felt were the disadvantages of taxation of Americans abroad. We were very pleased at the results last year.

However, we are concerned that we may be back in a position where we may have to come back and argue the same position again. We are concerned that the bill passed last year, which we all felt was very fair, may be modified to our disadvantage.

Senator HAYAKAWA. I had not heard that. I am glad to be so warned.

Mr. ROONEY. I understand there is a bill introduced before the House which would cut the taxation benefits in half. There are some

considerations to include the foreign-source income in the alternative minimum tax computation.

Senator HAYAKAWA. I am very, very glad to be warned about that.

What about the Foreign Corrupt Practices Act?

Mr. ROONEY. We have argued long and strong against this bill. We do not support bribery and we do not condone it. I think it is important to note that most American companies have antibribery or ethical codes of conduct, which are far stronger in terms of the way the officials of those companies conduct business in Asia, than perhaps is the bill.

However, the reporting and accounting requirements of the bill are so stringent that it devotes a tremendous amount of attention away from the doing of business and into reporting.

They also have the effect, which I think no one ever interpreted, of perhaps causing foreign governments not to even want to include U.S. companies in the bidding process for fear that someone may raise the allegation of bribery or corruption, which would not be to their benefit at all.

So, we are precluded from doing business in many cases which we may otherwise have had a chance to do so.

Senator HAYAKAWA. This no doubt is all part of the Lawyers and Accounts Full Employment Act. [General laughter.]

Are there other examples? You mentioned the antitrust laws. In what ways do they hinder you?

Mr. ROONEY. We have strongly supported the Export Trading Companies Act. One of the factors that is slowing that down in passage through the House is the consideration of antitrust applications overseas.

This affects us in several other areas as well.

None of our competitor nations really are affected by antitrust-type legislation in their dealings, as they try to act and support and promote international trade. We are. We would encourage that we be able to conduct business without concern of antitrust regulations and restrictions in the United States.

I think, as one looks at ASEAN, in my own country of Thailand I think we have a very good example where we are looking at development of the eastern seaboard of Thailand, with the discovery of natural gas. The size and scope of the projects require in many cases that one or more companies join together. We find that our European and Japanese competitors can do this very well; but we are restricted from it. We would like to see the extraterritorial application of these laws rescinded, if possible.

Senator HAYAKAWA. Am I right when I say that the antitrust laws, which were originally intended to prevent the formation and excessive power of trusts within the United States, have had a kind of unexpected application outside the United States, which sort of gums up our export trade?

Mr. ROONEY. Yes, sir, and it restricts, in many cases, the ability of American companies to form a consortium among themselves.

If one were to look at several projects that are formed right now, in the energy field, in particular, where the investment is substantial, one would generally see a consortium of companies.

In our competitive efforts against Japan, we may see two or three Japanese companies in that same consortium.

Senator HAYAKAWA. The Japanese trading company, as it is structured in Japan to do business with the rest of the world, would be illegal if formed in the United States, would it not?

Mr. ROONEY. Yes, sir.

Senator HAYAKAWA. So, we are at a disadvantage, then.

Mr. ROONEY. The Japanese trading company is the front of the cutting edge. You also find very significant representation from Japanese industry within the countries and the ability of those companies themselves to take advantage of market opportunities.

Senator HAYAKAWA. You mentioned tariff and nontariff barriers which confront you in the region. Do you believe that our ambassadors and their staffs in the area are doing an effective job in arguing your case with host governments?

What more do you think could be done?

Mr. ROONEY. We recently have surveyed our member countries which, as you will note from my testimony, stretch from Australia, up through Japan, and down through Hong Kong and into the ASEAN area. We find that our embassies are very supportive.

Regarding the question of tariff and nontariff barriers, we have a long history of being free traders. We are strongly in favor of trying to achieve market access. We support the removal of tariff and nontariff barriers.

I think it is interesting to note that, over the past year, we have seen a change in our list of priorities, and the No. 1 priority issue right now is the question of market access. Our concern is that the United States may pass protectionist, or reciprocity-type, legislation.

We, as Americans doing business in Asia—and I should note that this includes some 6,000 U.S. companies in the area and perhaps some 20,000 businessmen—are concerned that the United States may pass protectionist or reciprocity-type legislation, which would create, in its own way, a nontariff barrier in doing business with the United States.

It makes it difficult for us to support in our host countries the removal of tariff and nontariff barriers.

I also should note that the private sector companies and the private sector representatives in these areas generally feel much the same way we do. We work very much in concert with them.

Our embassies all have been made aware of our problems, and we work hand in hand with the embassies as well to try to put these through.

We feel that the best way to try to counteract these problems is to have steady, even, consistent pressure applied throughout. One of our residential concerns is that if a bill is passed, this bill may possibly be viewed as a cure or a one-stop fix of the problem, which it is not. It is a long-term problem, and it will take time to correct it.

I think the host countries are aware of the problems and many of them are taking steps in this direction.

Senator HAYAKAWA. I would like to go back to the first question again about the EEC having failed to send a representative to the interparliamentary ASEAN meeting.

Do we send such a representative?

Mr. ROONEY. As I understand it, the Secretary of State was going to attend.

The ASEAN nations are realists. They understood the difficulties of the situation at the time. However, since it is an area which is not fraught with crises and problems, but on the other hand is a successful area with strong growth and even stronger potential growth, it does not receive the attention that we oftentimes pay to areas where there are crises.

Senator HAYAKAWA. Such as the Middle East in recent days.

Mr. ROONEY. Yes. The wheel that squeaks gets the attention.

I feel that ASEAN is such a successful area that we, as a country, should continue to devote the highest possible attention that we can to their efforts, to pay attention to them, to try to assist them, to work together with them, and to try to foster the greatest degree of cooperation that we can.

Because of the fact that I represent the private sector, I tend to focus on economic cooperation.

We have noted that the increased political integration in ASEAN has stimulated greater economic activity and will probably continue to do so.

Senator HAYAKAWA. So, what you say in your prepared statement is important, then:

The U.S. Government must devote continued high-level attention to ASEAN through participation of top Congressional and Executive Branch officials in ASEAN meetings.

Mr. ROONEY. This can be through interchange, through official meetings, through business with ASEAN.

Mr. JOHNSON. Mr. Chairman, may I add a point here?

Senator HAYAKAWA. I would be very grateful if you would, sir.

Mr. JOHNSON. I want to give you an example of a possible opportunity.

This November, here in Washington, the ASEAN-U.S. Business Council will hold its fourth meeting, but it is the first meeting ever to be held in the United States.

Senator HAYAKAWA. When will this be held?

Mr. JOHNSON. During the middle of November—November 9 through 12.

Senator HAYAKAWA. This is important and I want to write it down.

Mr. JOHNSON. The purpose of holding the meeting in Washington is to provide an opportunity for the expected 100 business leaders who will be coming from the ASEAN region to meet with executive branch officials and congressional leaders on a wide range of political and economic issues which confront the United States and ASEAN group.

This would be an example of an opportunity to perhaps you or other Members of the Congress to participate in an ASEAN-United States event.

Mr. ROONEY. I would add that the businessmen who are active in ASEAN really are the business leaders of those countries. It would be the same as taking a sampling of the top business leaders of America.

In their own countries they are important, significant individuals.

Senator HAYAKAWA. I am very glad to hear about this, Mr. Johnson. I certainly would hope to attend something like this. I look forward to that opportunity.

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Mr. JOHNSON. We look forward to having you attend, Senator.

Senator HAYAKAWA. There is a vote coming up on the floor of the Senate very soon. So we will have to proceed rapidly.

In your information sheet on the functions of the Asia-Pacific Council, you deplore the absence, Mr. Rooney, of a coordinated foreign economic policy for our Government.

Have you observed any improvement in this area since the advent of the current administration? Short of the establishment of another Cabinet-level department concerned with international trade and development, what would your recommendations be in this area?

Mr. ROONEY. We have been concerned with this issue for a considerable period of time. We feel that the international economic policies of the United States happen rather than evolve out of a plan; that they are the result of actions without coordination in a number of areas.

We note with encouragement the greater attention that this administration places with the private sector. We feel that there still are difficulties in developing closer private-public sector cooperation, but that over a period of time this cooperation, this increased cooperation, can only benefit us.

In the past, we have been very supportive of, say, a Department for International Trade and Investment. We also have been supportive of the Foreign Commercial Service in the Department of Commerce, and continue to be so.

We, as a whole, would support any action or activities that would lead to greater integration of international economic policy into the conduct of our economic activities. We feel that, at present, the degree of attention that has been paid to the domestic economy may be slightly out of proportion. We realize the necessity for a strong domestic economy; but we also feel that in today's world the interaction of the American economy in the international economic scene cannot be disregarded. We must pay attention to it and we must be aware of our position.

I think also supporting this is the fact that many of our major companies depend very strongly on their international sales activities for substantial parts of their future growth.

So, it is impotant to us and we should pay attention to it.

I feel very supportive of the free trade and market access attitude of our Government. The statements by the U.S. Trade Representative and the Secretary of Commerce in these areas are very akin to our own thoughts.

Senator HAYAKAWA. That is very good. I am very glad to hear that.

I must leave now to cast my vote.

I have a number of other questions, some of which you have already answered or partly answered. I would like to submit them to you. If you would care to comment on them in writing, I would be most grateful.

Mr. ROONEY. I should be pleased to do so, Mr. Chairman.

Senator HAYAKAWA. I want to apologize to everyone for having started this meeting so late, but I was involved in trying to get an amendment passed on the floor regarding bilingual ballots, as it is so called.

Mr. JOHNSON. Were you successful?

Senator HAYAKAWA. Unfortunately, I was not. My amendment was defeated by a vote of 54 to 32.

Mr. ROONEY. Mr. Chairman, may I thank you for allowing us the opportunity to express our views on ASEAN. At the same time, I want to congratulate you for holding these hearings on what we feel is a very important part of the world.

Senator HAYAKAWA. Thank you very much. To me it is a very important part of the world.

I am chairman of this subcommittee, which deals with this area. The more I learn about this part of the world, the more impressed I am with the importance of my position.

[General laughter.]

I am very happy to serve on this subcommittee, and I look forward to coming out to at least some part of Asia soon.

Mr. ROONEY. We hope you will be able to come out and visit us again. We very much enjoyed your previous visit, Senator.

Senator HAYAKAWA. Mr. Rooney, let me say again how very much we appreciate your being with us this morning. Here in Washington, we all too often see things myopically—only through "government eyes." It is refreshing and most helpful to us to have the views and recommendations of an American businessman, resident abroad, who pursues our economic and commercial interests on a daily basis, in the real world of the marketplace. Thank you again, Mr. Rooney, and we wish you every success in your endeavors.

The committee will stand adjourned, to meet next, for the final session in this series, on July 15, at 3:30 p.m., in this room, to hear Assistant Secretary Holdridge's report on the ASEAN ministerial meeting. A portion of that meeting will of necessity be held in executive session.

Thank you both very much. Now, I am afraid, I must leave.

[Whereupon, at 10:50 a.m., the subcommittee adjourned, to reconvene at 3:30 p.m., Thursday, July 15, 1982.]

U.S. POLICIES AND PROGRAMS IN SOUTHEAST ASIA

THURSDAY, JULY 15, 1982

UNITED STATE SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3:36 p.m., in room S–116, the Capitol, the Honorable S. I. Hayakawa (chairman of the subcommittee) presiding.

Present: Senators Hayakawa and Glenn.

Ambassador HOLDRIDGE. Good afternoon, Mr. Chairman.

Senator HAYAKAWA. Good afternoon, Ambassador Holdridge.

We come today to the fourth and final hearing in our series examining U.S. policies and programs in Southeast Asia. This afternoon we shall hear from the Honorable John H. Holdridge, Assistant Secretary of State for East Asian and Pacific Affairs, who will brief us on the recently concluded ASEAN and ANZUS ministerial meetings which he attended.

We welcome you back to the committee, Ambassador Holdridge, and we look forward to your briefing.

Before turning to Ambassador Holdridge's briefing, I would like to make a few observations based on our examination of our policies and programs in this very important part of the world.

Barring unforeseen circumstances, today's hearings will conclude our examination of our relations with Southeast Asia and particularly the ASEAN nations—Thailand, Indonesia, Malaysia, Singapore, and the Philippines—which we commenced with the convening of the 97th Congress. I initiated this 18-month long investigation because it seemed to me that the Southwest Pacific is an area essential to our security and economic interests, about which we in the Congress have insufficient knowledge and understanding. Indeed, I believe this can be said to a greater or lesser degree of the Government as a whole, of the business world, and of the average American.

We here in the Senate, and elsewhere in Washington, tend to focus on the crisis of the moment, be it the budget, the Falkland Islands or Lebanon. All of these are important, if not vital to us. But in so doing, we ignore areas and issues where great opportunities lie for our country.

Southeast Asia is just such an area and we must do all we can to improve our relations with our friends who live in this part of the world. Our interdependence with our ASEAN friends will be evident to those who have followed these hearings. Whether in the area of

raw materials, markets, industrial development, agriculture, trade or security, we are each dependent upon each other. We must recognize this interdependence and take advantage of the opportunities it offers.

In this regard, as one who has spent a lifetime helping to bridge the gap between East and West, I would like to commend to my colleagues' attention the comments of the distinguished Prime Minister of Singapore in his opening remarks to the assembled foreign ministers of the ASEAN nations last month. Prime Minister Le Kuan Yew, with whom I conferred last summer and whom I look forward to seeing again next week, said that the five ASEAN countries have made progress "in an Asian manner," not through rules and regulations but through consensus.

He said that the five had made a habit of working together and of consulting each other over common problems. There is much that we in this country could learn from this example. It is important that we learn this lesson in our relations with our friends in Southeast Asia, and I am confident that we are doing so.

Let me turn for a moment to several more specific problems on the horizon. As I reported to my colleagues upon my return from a fact-finding mission to Southeast Asia last August, all of the ASEAN nations perceive a threat to their independence from the Soviet Union and from China. Their perceptions of the details of this threat vary, as one might expect. But they are united in the belief that communism has no place among them.

While we in the United States tend to be more concerned about the magnitude of the Soviet presence in and around Southeast Asia—and with our global responsibilities, we must indeed be concerned—our friends in ASEAN tend to be more concerned about subversion of thier societies and institutions from within. We must understand and be sympathetic to this point of view. We must take it into account, particularly in our dealings with China, which is an overwhelming presence in the region.

But in the final analysis this problem—like others confronted by our ASEAN friends—must and will be solved by the peoples of these five great nations themselves. As my esteemed friend, General Romulo, Foreign Minister of the Philippines, said in Singapore last month, if the threat to ASEAN security is from subversion, then the real defense must rest on the strong will and unity of the people, enhanced by economic development. I agree with General Romulo and I believe that we in the United States can play a significant role in this economic development.

As I mentioned at our June 10 hearing, it is my belief, as it is President Reagan's, that the private sector can and should make the major contribution to the development of the Third World. I commend the administration on its efforts in this area, which were described to us by the able representatives of the Overseas Private Investment Corporation [OPIC], and the Agency for International Development [AID].

But we must not rely on Government-related programs alone. The private sector must be encouraged at every opportunity to seize the initiative abroad to increase U.S. trade and investment to its own betterment and to the betterment of our trading and investment partners abroad.

The phenomenon of protectionism which we are observing among the industrialized nations must be resisted. Both tariff and nontariff barriers must be eliminated, so that trade is free and unhindered by Government regulation. We must also work to offset or equalize the comparative advantage that some of our foreign competitors enjoy as a result of concessionary financing. We must find money to support feasibility studies which would result in the expansion of trade and investment by our corporations abroad.

One area that is of particular concern to me is the trading company. I have a special interest in this area. if for no other reason than that my father was head of a small trading company. It was small, but his customers ranged over three continents: Asia, Africa, and North America. He had the organization and the know-how to expedite the sale of goods manufactured by small companies which could not by themselves afford a worldwide distribution system.

We must not forget that the largest part of our gross national product [GNP] is produced by what we call "small business." Yet these small businessmen and women are inhibited from combining to trade abroad by fear of our antitrust laws and policies. We must change this.

It was the ingenuity of the "Yankee trader" buying and selling over the seven seas which made this country great. We must reinstill this spirit in our everyday lives and in our commercial endeavors.

And finally on this subject, I must add that our embassies abroad must work hand in glove with our entrepreneurs abroad to assure that trade and investment flourish and development proceeds rapidly. As General Romulo said, this is the best assurance against subversion and, I would add, against domination of the area by either the Soviet Union or by China.

Now I would like to turn to three areas of great importance to me and I believe to our country: The Indochina situation, the refugee situation and the POW/MIA issue. First, Indochina. We will shortly hear from Ambassador Holdridge on his discussions at the ASEAN meeting on this subject and I do not know what he will say. But I would like to commend the ASEAN governments on their leadership in seeking a solution to the Cambodian problem. I was encouraged by the agreement of the three factions to form a government in exile. At the same time, I was somewhat disturbed at the thought that the United States might be asked to provide anything other than humanitarian assistance to this government.

I think we must constantly bear in mind that the Chinese do not appear to be prepared to accept any diminished role for their Cambodian clients in this situation. Our aid will inevitably benefit this faction, and we certainly do not wish to be tarred with the brush of Pol Pot or his successors any more than we are now.

Insofar as the Vietnamese are concerned, their government has a long history of intransigence and resistance to pressure. I doubt seriously that they can be persuaded by isolation from the international community to cease their occupation of Cambodia, certainly not so long as the Soviets continue to underwrite the Vietnamese economy. I fear, therefore, that Indochina will remain a problem on the international scene for many years to come, much as it has been for the past

40 years or so. I can only counsel patience and more patience, as the history of the Orient teaches us.

As a direct result, of course, of the problems of Indochina, we continue to be faced with a stream of refugees fleeing Communist rule. We have not discussed the refugee situation extensively in these hearings, but it is nevertheless a very important issue and a problem which I believe will also be with us for many years. As long as Indochina remains under the Communist yoke and the people are able to "vote with their feet," because they can vote in no other meaningful way, we will be called upon to provide asylum for these oppressed people.

I applaud the administration's decision to admit additional Cambodian refugees to our shores, but I am disturbed by recent reports that we continue to try to ascribe economic motives to their flight from their homelands, rather than political ones. I have visited refugee camps in Thailand and talked to innumerable refugees, but I do not believe I have ever talked to one whom I would consider an "economic refugee." I find this an almost impossible distinction to make among those fleeing the oppression of Vietnam and Cambodia.

We in the United States must never lose sight of the origins of our country and what has made it a dynamic and growing society for over 200 years. That is, the arrival on our shores of talented, energetic refugees, seeking a better way of life.

Finally, I would like to turn to the question of those missing in Laos and Vietnam as a result of the Indochina conflict. It seems wise to me to treat this as a humanitarian issue, which it certainly is, raising it above the level of political questions. I commend the administration on taking this approach to this very difficult problem.

But there is an obvious corollary to this approach, as yet unacknowledged by our Government. That is that greater participation in trying to gain a final accounting of our missing will be required from humanitarian or nongovernmental organization. In other words, the Government is by definition a political organization and its activities are therefore suspect.

If we are to pursue a humanitarian approach—and I believe we should—we must not only permit but encourage the participation in the effort of responsible and knowledgeable humanitarian organizations. There are, of course, dangers inherent in this approach, as there are in any.

Hanoi is liable to use such efforts for its own propaganda or political purposes. But I believe we will simply have to accept this if we are to respond, as we must, to the thousands of American families who want to know the fate of their loved ones.

I have imposed too long on your time and patience, so I will simply say this in conclusion: First, this is the situation in Southeast Asia as I understand it. There are a number of serious problems confronting us. They are difficult. Many are intractable.

But there are opportunities as well, and this brings me to my second point. The future of Southeast Asia holds great promise, both for the peoples of the area and for us as their partners. There is no more promising area of the world.

Thank you very much.

Senator Glenn, do you have a statement?

Senator GLENN. I will give a brief statement of my own and then, because I could not stay for the whole meeting, I will get back as fast as I can.

I want to start off today by thanking Senator Hayakawa. I want to compliment you on your thoughtful observations on U.S. policies and programs in Southeast Asia. I share your concern about the Indochina situation, refugees, and the POW/MIA issue.

I also want to compliment Senator Hayakawa on the subcommittee's examination of our policies and programs in this very vital part of the world. I think you have done a great job in this regard. No other subcommittee chairman, to my knowledge, has worked as hard to investigate the problems and prospects in this region as he has. His persistent efforts, of course, have paid off. The record he has compiled provides valuable information to the public and has influenced U.S. policy in a positive way. So again, I want to compliment Senator Hayakawa on a job well done.

If I might, I would like to shift gears and discuss China policy very briefly. I recognize, Mr. Holdridge, that we are here today to have you brief us on ASEAN and ANZUS affairs. Before we get into that, I will make a few comments on your negotiations with the Chinese regarding Taiwan arms sales.

Being from the State Department, you are interested certainly in the fine print of an agreement. Being from the Congress, sometimes we focus more on the bottom line of what does it all mean.

For example—and these are the questions that I would hope we could get into later, either in open or closed session—if the Chinese accept our latest proposal will we be able to sell arms to Taiwan based solely on our judgment of Taiwan's needs?

No. 2, if 10 years from now Taiwan needed a brand new air defense fighter to replace the then obsolete F–5E s, we could do it under your proposal; is that the understanding of this? We are not saying to the Chinese, are we, that we will never sell F–5G's or F–16/79's to Taiwan? I am assuming that necessary qualitative improvements will be allowed.

No. 3, I would also assume that if the Chinese agree to our proposal we will have settled the arms sales issue once and for all—no more discussions, no more People's Republic of China demands; that China will have agreed not to seek more concessions in the future.

And fourth, finally, I hope that we have not granted the People's Republic of China its claim of sovereignty over Taiwan, have we, in any of these new agreements? If the people of Taiwan freely choose to drop the Rupublic of China view of there being only one China and move to a more independent course, the United States would not have to oppose that, would we? We would not have to go to Taipei and say, you cannot do this, you really belong to China?

In the words of the Taiwan Relations Act we would still "consider any efforts to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, of grave concern to the United States" and will "maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security or the social or economic system of the people on Taiwan," is that correct?

So those are some questions we would want to address later on. They are not easy questions. I realize that. But they are things that I think we have needed to have spelled out better in the past, and I hope we could get some definition of those at this hearing.

I do have a 4 o'clock group waiting for me in my office. But I will come back.

I do want to repeat the first part of my statement. I want to thank you, Mr. Chairman, and I want to compliment you on your thoughtful observations about U.S. policies and programs in Southeast Asia. I want to repeat that I share your concern regarding the Indochina situation, the refugees and the POW/MIA issue.

I also want to compliment you on the subcommittee's examination of our policies and programs in this very vital part of the world. I think you have done a great job, and no other subcommittee chairman to my knowledge has worked as hard to investigate the problems and prospects in this region as you have.

Your persistent efforts, of course, have paid off. The record you have compiled provides valuable information to the public and has influenced U.S. policies in a positive way. So again, Sam, I want to compliment you on a job well done.

Senator HAYAKAWA. Thank you.

Senator GLENN. I have listed some additional questions and I will be back as soon as I can.

Senator HAYAKAWA. Thank you very much, Senator.

Senator GLENN. If perchance I am not able to get back, Mr. Chairman, if the questions I listed here could be answered today, fine. If not, I would appreciate an answer in writing to them. We would be glad to supply a copy of them to Ambassador Holdridge.

Ambassador HOLDRIDGE. We would be very happy to answer them, either orally or in writing.

Senator HAYAKAWA. Ambassador Holdridge, do you have a prepared statement?

STATEMENT OF HON. JOHN H. HOLDRIDGE, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS

Ambassador HOLDRIDGE. Thank you very much, Mr. Chairman. I do have a prepared statement and I would like to submit it for the record if I may. Rather than go through it in all of its detail, I would like to give you a brief rundown of all of the elements that I would like to bring up this afternoon in conjunction with your own remarks.

Senator HAYAKAWA. Thank you very much. We would be delighted to do that.

Ambassador HOLDRIDGE. But before I do that, Mr. Chairman, I would like to say a few remarks. In echoing what Senator Glenn said a few moments ago, I would like to add some of my own words of appreciation to those of Senator Glenn for your own superb leadership of the Subcommittee on East Asia and Pacific Affairs. I think your personal interest in Southeast Asia in general and in ASEAN in particular has been particularly heartening and has been crucial, really, in focusing public attention on an area of vital U.S. concern and continuing interest.

In my opinion, you have done more than any one person on the Hill to highlight the Association of Southeast Asian Nations [ASEAN] as the most important new political and economic fact of life in Southeast Asia to emerge since 1975. You have correctly identified ASEAN as a key aspect of U.S. policy in that region, and through your personal visits to ASEAN capitals and in hearings of this subcommittee you have given a much needed emphasis to ASEAN's significance.

As Secretary Stoessel said in the post-ministerial meetings in Singapore, we regard ASEAN as a key element in our policy toward Southeast Asia, and it is very important, I think, that American public opinion is aware of this feature of our policy. And so I would like to express my own personal opinion, or rather, thanks for your efforts and add to those the thanks of the Department of State in general.

Now, I would like to say too that I was very much interested in what you have just said in your statement, and I can say a priori that I certainly would agree without any question with most of what you say, and in areas where we might have some different shadings I am sure that we can come to some meeting of the minds in the give and take of the questioning session.

Let me say that I would like to endorse in particular your comments about the role of economic affairs in our foreign policy. I think this is an aspect which is all too often neglected and I personally believe it is crucial that we pay attention to economic matters.

In fact, as you spoke about Secretary Romulo's remarks, I would like to get into those a little bit later in my own rundown of what we saw in ASEAN. But the role of U.S. Government support for American economic efforts abroad I think is extremely important, as well as is the necessity for our embassies and our businessmen to work very closely together. This has always been a firm conviction on my part. You may be sure that in the East Asian Bureau we take this to heart very much, indeed.

If I may, I would like to run down some of the experiences that I had in my visit to Southeast Asia with Secretary Stoessel and then on my own once I left Secretary Stoessel in Canberra and retraced my steps. I went with the Secretary first to the Philippines on the way to the ASEAN post-ministerial dialog and had an opportunity there with the Secretary to discuss matters with President Marcos.

Then we went to Singapore for the postministerial dialog, and while there the Secretary and I had a chance to sit in with discussions with Prime Minister Lee Kuan Yew. Following the ASEAN post-ministerial discussions we went to Canberra for the ANZUS Council meetings, and Secretary Stoessel then had private talks with Prime Minister Fraser and also with the leader of the opposition, Mr. Hayden, in Australia, along with other Australian leaders of a wide variety.

At this point we separated company. Secretary Stoessel went to New Zealand and had conversations with Prime Minister Muldoon and other leaders of the New Zealand Government, and with the leader of the opposition, Mr. Rowling. I went back in the other direction, via Jakarta, Bangkok, Rangoon, Hong Kong, and home. So with the single exception of Malaysia, I have had a chance now to visit all

of the countries of Southeast Asia recently, and I did visit Malaysia last November.

So I have had a chance as Assistant Secretary to see all of these places. But let me say that the visit of Secretary Stoessel to these two conferences and his conversations with the leaders individually in the course of his visit were extremely useful, and were very helpful in terms of U.S. policy. Taken together, the detailed multilateral and bilateral consultations were not only timely and extremely useful, but they indicated a very strong continuing U.S. interest in that part of the world and highlighted the importance that the administration attaches to our relationship with our friends and allies in these two strategically vital regions of Asia.

In my written statement, I provided the detailed description of what I believe we accomplished at these meetings, and I would like to summarize briefly some of the highlights as I perceive them. At ASEAN the content and tenor of discussions concerned the correctness of our policy of making ASEAN, as I said, the keystone of U.S. interests in Southeast Asia. We had three objectives in Singapore:

First, we sought to emphasize that the United States sees ASEAN as the central element in our policies in Southeast Asia and to dispel any impression that U.S. interest in the region had lessened because of preoccupations with pressing crises elsewhere. As you know, the Secretary of State was personally unable to attend the ASEAN post-ministerial meeting because of the pressures of the Middle East and Europe and the President's visit to Europe. But that did not mean any diminished interest on our part. Quite the contrary, the point we stressed all along was that ASEAN, and the region indeed together, rank very high in our judgment.

Another point we wanted to stress was we wanted to reiterate U.S. support for ASEAN's strategy for finding a political solution to the Kampuchea problem. I stress here, a political solution. It is not the policy of the U.S. Government, as has been charged, to bleed Vietnam to death. We support a political solution as soon as possible.

Finally, we wanted to address and discuss frankly a number of specific ASEAN concerns. Although these were mainly in the economic area, we knew that the Law of the Sea, Indochinese refugees, and the United States bilateral relationship with China, as you outlined yourself, Mr. Chairman, would also be issues of importance to our hosts.

Now, turning to the important issue of Kampuchea, without exception the ASEAN representatives made clear their firm agreement that their goals were total withdrawal of Vietnamese troops and a neutral, independent Kampuchea. They stressed their goal of a political settlement of the problem, as I have indicated. They reaffirmed their commitment to the declaration of the international conference on Kampuchea as both the instrument and framework for ASEAN's policy objectives.

Fortuitously, while we were at the ASEAN meeting, it was possible for Tan Sri Ghazali, the Foreign Minister of Malaysia, to announce agreement on the part of the three Kampuchean factions—that is, the DK or the Khmer Rouge, if you will, Prince Sihanouk and Son Sann—to come together in forming a coalition government and joining their forces so best to resist the Vietnamese aggression against Kampuchea

and continued occupation of that country. And we were able to indicate our support.

For our part, Deputy Secretary Stoessel declared that ASEAN, as I mentioned, was the keystone of U.S. policy toward Kampuchea and Indochina, and said that we fully support ASEAN's strategy and respect ASEAN's leadership role in the region. We would continue to work closely with ASEAN on regional issues.

Secretary Stoessel said that we shared ASEAN's goals as elaborated in the declaration of the international conference and would work with ASEAN to realize the objectives of total Vietnamese withdrawal from Kampuchea and a neutral, independent Kampuchea. We also strongly favor a comprehensive political settlement. And as I said, we regard the establishment of the coalition government of Democratic Kampuchea as an encouraging development in this regard.

In both the public and private sessions, the ASEAN ministers expressed clear appreciation for the firm political support from the United States on the Kampuchean issue. Our basic approach of supporting ASEAN was very much appreciated, as I have said, but the delegation's public statements had in addition a very positive effect in the public affairs dimension.

As planned, the Deputy Secretary's arrival statement, his speech in the so-called five plus one, that is the five ASEAN foreign ministers meeting directly with Secretary Stoessel, and his intervention in the five plus six, that is the five ASEAN foreign ministers plus the six dialog partners, the remarks in the joint press conference, and his department press conference stressed the key role ASEAN occupies in our Asian policy.

Now, apropos of China, let me add here that one question which came up in the Secretary's remarks in the press conference had a bearing on the concern which you, sir, have expressed with respect to the Chinese role. He was asked about U.S. policy toward China possibly taking precedence over U.S. policy with respect to ASEAN, that is, our interest in a strategic relationship with China conceivably causing us to downgrade our relationship with ASEAN.

He made it very plain that this was not the case. He said, as I noted, that we regard our relationship with ASEAN as the keystone, the key element of our policy toward Southeast Asia, and we would not let the relationship with China interfere with our relationship with the ASEAN countries. That point was very well regarded in the press and in the private remarks we had from the ASEAN leadership.

Senator HAYAKAWA. Was that Secretary Stoessel?

Ambassador HOLDRIDGE. That was from Secretary Stoessel and his press conference at the conclusion of the ASEAN dialog.

Press reports and statements by ASEAN leaders indicated an end to earlier concerns about a possible downgrading of U.S. involvement in the region and a downgrading of our relationship of ASEAN as a consequence of our relationship with China.

There were a couple of other matters touched upon which you in your statement mentioned, Mr. Chairman, and one concerns refugees. Secretary Stoessel made it very plain to all the ASEAN countries, especially those with a refugee problem within their borders, that we would continue our support for the policies which have served us

so well up to now, that is the policy of support for the principle of first asylum and also our efforts to continue the onward movement of refugees to the United States within the numbers that we have worked out with the Congress.

The statement from Secretary Stoessel was very much appreciated. We do not intend, if we can help it, to allow large numbers of unassimilable refugees to remain within the borders of these countries and cause concern.

Another issue which Secretary Stoessel touched upon in his statement with the ASEAN dialog was our concern over the POW/MIA issue. Now, this is not something necessarily of direct concern to the ASEAN countries, but he did want it on the record in the context of the ASEAN meetings that this is an element in our policy toward Southeast Asia and will continue. We will certainly press hard for an accounting of the POW/MIA's and we will not let our endeavors in this region flag.

Now, there were some problems that came up in our discourse with the ASEAN leaders and these really rotated especially on economic and trade matters, as well as the Law of the Sea. It was apparent that ASEAN nations had some reservations about, if not clear opposition to, a number of U.S. positions. I think we have to be candid on that score.

They talked about tin and other commodities. They talked about North/South matters. They talked about our stand against the Law of the Sea ratification. They did not know what our policy was at that particular time. And they were wondering about continued access to U.S. markets, in other words the growth of protectionism in the United States.

I think that we were able to reassure them on all of these scores. At least we told them that in the case of U.S. receptivity to exports from the ASEAN countries, that our markets will continue to be open. In fact, in terms of protectionism, the United States need not be ashamed, that we have been leading the world, in fact, in trying to set the pace on the maintenance of the principle of free trade in international markets.

I think the media did reflect the fact that we made our points, that we were listening to the areas of ASEAN's concern. Secretary Stoessel said he would report back the areas of particular concern and then we would followup in areas where we could.

So I am confident that as a result of this year's ASEAN postministerial dialog the ASEAN countries, as well as other dialog partners, are reassured about ASEAN's importance and the high priority we give Southeast Asia and our relationship with the five ASEAN countries. It is an interesting feature here that, really speaking very candidly, in a political sense we had no problem. We found ourselves very much on the same wavelength on political matters on the issues that are of concern to us all, on the approach that ASEAN wants to take, and on our support for the approach that ASEAN is taking.

Of interest is the fact that the problem areas were all of an economic nature, including the Law of the Sea. I wouldn't want to say that these problem areas are of a magnitude yet sufficient to overcome the good political relationship which exists, but I have to say that that is a garden that needs constant tending and that we cannot downgrade

the importance of ASEAN and the concerns in the minds of the ASEAN leaders in our calculations. This is the point I intend to make back here.

Now, let me turn briefly to the ANZUS situation. As I mentioned, following the ASEAN meeting we went on to Canberra for the ANZUS situation. As I mentioned, following the ASEAN meeting we went on to Canberra for the ANZUS Council meeting. It is an annual affair. Once again, Secretary Stoessel, as I mentioned, had the chance to have individual meetings with important leaders in Australia, and we had a chance, in concert with our ANZUS partners, to discuss areas of continuing mutual concern.

This would involve the Soviet threat, relations between the United States and China, always an area of continuing interest, and the problem of arms reductions, our policies in areas of a number of interesting and important features, world economics, North/South issues, and so on. One thing I would like to highlight is this: In the ANZUS communique there was a statement—this was not written by us, but by our Australian and New Zealand friends—which called for the continued visits of U.S. warships to Australian and New Zealand ports as being in the interest of our ANZUS partners and in fact making it plain that they hoped these visits would continue without interference.

In Secretary Stoessel's private conversation with the leader of the Australian Labor Party, the subject did come up. He explained our position to Mr. Hayden, the leader of the New Zealand opposition—the Labor Party. I think this discussion may have had a bearing on the fact that the Australian Labor Party's position on the visits of U.S. warships has now shifted in favor of allowing U.S. vessels access to Australian ports. I think it was a very important development.

Finally, in New Zealand Secretary Stoessel had the opportunity to meet with a number of important leaders. Again, the question of access to New Zealand ports as well as Australian ports came up. I think that Mr. Rowling, the leader of the New Zealand opposition party, now has a better appreciation of our views.

Let me say concerning my own further trip to Djakarta, Bangkok, Rangoon, and home, the other countries that I visited that I thought the conversations there were extremely useful and gave me a better perception of their interests and concerns, and then, a better knowledge of what the United States was prepared to do in support of their policies.

Thank you very much, Mr. Chairman. I think that the full-scale discussion of my visit to the other countries is contained in my prepared statement and I need not elaborate any further. But I would be very happy to answer any questions that you put my way.

[Ambassador Holdridge's prepared statement follows:]

PREPARED STATEMENT OF HON. JOHN H. HOLDRIDGE

Mr. Chairman, on the eve of my departure for Asia with Deputy Secretary of State Stoessel June 9, I appeared before this Subcommittee to review the Administration's policy towards Southeast Asia. As promised at that time, I am reporting to you today on the results of the Deputy Secretary's attendance at the ASEAN Post-Ministerial consultations in Singapore, June 17–18, and at the ANZUS Council in Canberra, June 21–22. Our participation in these two con-

ferences significantly furthered the objectives of U.S. policy in Southeast Asia and the South Pacific. The Deputy Secretary also met in Manila with President Marcos, in Singapore with Prime Minister Lee Kuan Yew, in Canberra with Prime Minister Malcolm Fraser and in Wellington with Prime Minister Muldoon.

Taken together, these detailed multilateral and bilateral consultations were timely and extremely useful. They served to highlight the importance which the Administration attaches to the United States' relationship with our friends and allies in two strategically vital regions of Asia. During this period there also occurred an event of major political significance regarding Kampuchea: the announcement of the agreement for a coalition of the three Khmer resistance groups, together with the meeting in Kuala Lumpur of their leaders.

ASEAN POST-MINISTERIAL CONSULTATIONS, SINGAPORE, JUNE 18–19, 1982

Following the practice which has become standard, the five ASEAN Foreign Ministers, after their private deliberations, met with the Foreign Ministers of ASEAN's six "dialogue partners"—the United States, Japan, Canada, Australia, New Zealand and the European Community—for two days of intensive discussions. These took place in the plenary "Five Plus-Six" session where all were present; in the "Five-Plus-One" session, where the ASEAN Ministers met with individual dialogue counterparts; and in various bilateral meetings. Deputy Secretary Stoessel had the opportunity to meet bilaterally with all the ASEAN delegations, with the Foreign Minister of Japan, and with European Community representatives, including Belgian Foreign Minister Tindemans. We established beforehand several U.S. objectives for these consultations at ASEAN.

OUR OBJECTIVES

First, we sought to emphasize that the United States sees ASEAN as the central element in our policies in Southeast Asia and to dispel any impression that U.S. interest in the region had lessened because of preoccupations with pressing crises elsewhere. Second, we wanted to reiterate U.S. support for ASEAN's strategy for finding a political solution to the Kampuchea problem. Finally, we wanted to address and discuss frankly a number of specific ASEAN concerns. Although these were mainly in the economic area, we knew that Law of the Sea, Indochinese refugees and the U.S. bilateral relationship with China would also be issues of importance to our hosts.

U.S.-ASEAN RELATIONSHIP

In his remarks at the "Five-Plus-One" meeting, Deputy Secretary Stoessel underscored U.S. support for ASEAN and our trust in and respect for ASEAN's regional leadership role. Here, our firm backing of ASEAN's Kampuchea strategy, including maintaining economic and political pressure on Vietnam to negotiate a peaceful solution, received special emphasis. The Deputy Secretary pledged to continue mutually reinforcing U.S.-ASEAN efforts on a broad range of endeavors. And he expressed confidence that in difficult times as in good, ASEAN will have no cause to doubt U.S. support. In our judgment, the ASEAN nations were reassured in Singapore concerning U.S. reliability, our determination to take their interests fully into account, and the emphasis we give our ASEAN relationship.

KAMPUCHEAN ISSUE

Without exception, the ASEAN representatives made clear their firm agreement that their goals regarding Kampuchea were total withdrawal of Vietnamese troops and a neutral, independent Kampuchea. They stressed their goal of a political settlement of the problem. They reaffirmed their commitment to the Declaration of the International Conference on Kampuchea as both the instrument and framework for ASEAN's policy objectives.

For our part, Deputy Secretary Stoessel declared that ASEAN was the keystone of U.S. policy toward Kampuchea and Indochina. We fully support ASEAN's strategy and respect ASEAN's leadership role in the region. We would continue to work closely with ASEAN on regional issues.

We share ASEAN's goals as elaborated in the Declaration of the International Conferenec and work with ASEAN to realize the objectives of total Vietnamese withdrawal and a neutral, independent Kampuchea. We also strongly favor a comprehensive political settlement.

In both the public and private sessions, the ASEAN Ministers expressed clear appreciation for the firm political support from the United States on the Kampuchean issue.

In the days prior to the conference, there had been indications that the three Khmer resistance factions—the KPNLF under Son Sann, Prince Sihanouk and the Khmer Rouge—were near agreement on terms for a coalition to work for an end to the Vietnamese occupation and the restoration of Khmer self-determination. The success by the Khmer leaders in joining a coalition was hailed by ASEAN governments at the Joint Press Conference June 20. Actual formation of the coalition Government of Democratic Kampuchea (CGDK) was expected to take place subsequently inside Kampuchea. This occurred July 9.

Deputy Secretary Stoessel welcomed agreement on a coalition. He reiterated that the United States would continue to provide political and moral support for the non-communist Khmer resistance, and promised to consult closely with ASEAN on how we could be of further help. The Deputy Secretary stated that, in any event, the United States would provide no military assistance. He emphatically ruled out aid to or contact with the Khmer Rouge.

International reaction to the coalition has generally been positive. The European community, Japan and Canada are among those nations which have warmly welcomed the coalition agreement.

While not involved in the process or negotiations for the coalition, we have welcomed the Khmer coalition as a step toward a peaceful political settlement in Kampuchea as envisioned in the Declaration of the International Conference on Kampuchea.

Following the ASEAN post-ministerials, Hanoi surfaced a revamped proposal which offered a unilateral withdrawal of an unspecified number of its troops from Kampuchea, called for the Thais to disarm the Khmer resistance, and renewed Hanoi's call for a conference on Southeast Asia with expanded participation including the United States and U.N. Secretary General, in his private capacity.

Despite the new packaging, the proposal incorporates Hanoi's standard positions. Evidently Hanoi's economic deterioration and political isolation, compounded by the formation of the coalition, led Hanoi to refurbish its proposals. The proposals, however, fail to deal with the core issues, Vietnamese military occupation of Kampuchea and the denial of Khmer self-determination as called for in the Declaration of the International Conference on Kampuchea, which we continue to support fully.

INDOCHINESE REFUGEES

All five ASEAN Foreign Ministers sought continued international support on the refugee problem and emphasized that the granting of first asylum depends on the commitment of resettlement in third countries and the avoidance of a residual refugee problem, i.e., those persons not resettled under any of the national or international programs. The Foreign Ministers were convinced that the boat refugee problem needs to be tackled at its source and urged Vietnam, the U.N. High Commission for Refugees (UNHCR) and resettlement countries to strive for an effective implementation of the Orderly Departure Program. On Khmer refugees, the Foreign Ministers reiterated their support for a safe, voluntary repatriation program while urging the international community to help resettle those Khmer who are unable to return to their country. They noted with appreciation with contributions by donor countries to the U.N. Kampuchean Emergency Relief Program have saved millions of Kampucheans from famine and disease.

The Deputy Secretary said we would continue to do our part to ease the burden on the first asylum countries and urged others to contribute as well. We are also continuing our efforts through UNHCR for a fuller utilization of the Orderly Departure Program.

In his press conference, Deputy Secretary Stoessel also addressed the reported remarks of Vietnamese Foreign Minister Nguyen Co Thach saying that Vietnam would release all inmates in reeducation camps if the United States and others would accept them. Ambassador Stoessel stressed that we would consider all those who qualify under the Orderly Departure Program, currently targeted at 1,000 per month.

We are seeking clarification of Minister Thach's remarks through the UNHCR. Should the proposed UNHCR–SRV discussions concerning the possible consideration of some reeducation camp inmates for the Orderly Departure Program indi-

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cate a need for additional refugee numbers for East Asia, we are hopeful that the Congress would view this need with understanding.

ECONOMIC ISSUES

Although Kampuchea tended to monopolize the spotlight in Singapore, economic matters, as we had anticipated, received more prominent billing at the meetings and in the media than in the past. The ASEAN nations have been hit by the world recession and they find the markets for their key products and their growth and prosperity severely affected. At the "Five-Plus-One" session Philippine Foreign Minister Romulo presented ASEAN's economic concerns.

Romulo noted the "cloud of international economic gloom"—high interest rates, unemployment, protectionism, and discrimination. He urged the United States not to succumb to protectionism, citing U.S. textile and sugar quotas and "signs of further restrictions". Romulo said ASEAN was worried about the future of the U.S. program of Generalized System of Preference (GSP). He protested the restrictions found in our GSP and the uncertainty of product-by-product graduation. Romulo echoed statements by others which stressed standard concerns about commodities, especially GSA tin sales, and United States cuts in appropriations for international lending agencies. Romulo said some progress has been made on economic matters via the U.S.–ASEAN dialogue but added that ASEAN would like to strengthen this dialogue.

Throughout the meetings, there was recurring concern about the effects of the recession in the United States and elsewhere and its implications for ASEAN. Some delegates were disturbed at what they described as a trend in the United States toward hardening or even regression of views on international commodity arrangements and the Common Fund. While some of the ASEAN countries were encouraged by the strong U.S. stand on free trade, they also expressed skepticism about the industrial countries' ability to improve the GATT system in the near term.

In comments to the ASEAN nations our delegation acknowledged that we realize the degree to which the massive U.S. economy affects the world environment and that this is a major reason why the present Administration has placed top priority on getting its domestic economy in order. We stressed that in doing so the United States has eschewed controls and resisted pressures for increased protectionism; the United States also looks forward to the GATT Ministerial in the fall where our goal is to foster a freer flow of trade, investment, and technology, all matters of importance to the ASEAN countries as well as the United States. We also repeated our offer to hold special consultations on GSA tin disposal with the ASEAN tin producing countries.

The ASEAN countries did not take a confrontational stance on these issues but handled them in a spirit of interdependence and mutual cooperation. For our part, we assured them that we will be attentive to their concerns, that we value our trade relationships with ASEAN, our fifth largest trading partner, and recognize the need to oppose protectionist trends.

CONCLUSION

Our participation in the ASEAN post-ministerial consultations in Singapore was highly successful. The content and tenor of the discussions confirmed the correctness of our policy of making ASEAN the keystone of U.S. interests in Southeast Asia. Our basic approach of supporting ASEAN was appreciated. The delegation's public statements had a positive effect. As planned, the Deputy Secretary's arrival statement, his speech in the "Five-Plus-One," his intervention in the "Five-Plus-Six," the remarks in the joint press conference, and his departure press conference stressed the key role ASEAN occupies in our Asia policy. This theme was well represented in the Singapore media and other ASEAN capitals. Likewise, press reports and statements by ASEAN leaders at the close of the conference indicated an end to earlier concerns about a possible downgrading of U.S. involvement in the region. On some economic and trade matters and Law of the Sea, it was apparent that the ASEAN nations have reservations about, if not clear opposition to, a number of U.S. positions. Yet the media reflected the ASEAN delegates' perceptions that we had listened seriously to ASEAN's views, that the Deputy Secretary would carry those views back to Washington, and that ASEAN's concerns would be carefully considered in future decisions affecting Asia. I am confident that as a result of this year's ASEAN post-ministerial dialogue the ASEAN countries, as well as other dialogue

partners, are reassured about ASEAN's importance and the high priority we give Southeast Asia and our realtionship with the five ASEAN countries.

ANZUS COUNCIL MEETING, JUNE 21–22, 1982

Background on ANZUS

Under the ANZUS Security Treaty, Australia and New Zealand cooperate on a wide range of defense and other matters as fully and closely with the United States as any of America's other allies. Our ANZUS allies' highly trained and well equipped armed forces make a vital contribution to the Western strategic posture in the Pacific Indian Ocean regions. Australia and New Zealand participate in military exercises with the United States, seek to adopt mutually compatible defense equipment and doctrines, exchange military personnel and welcome port calls by all USN ships. In addition, Australia and the United States jointly operate several electronic installations in Australia that are critical to the Western alliance, the defense of Australia, and the national defense of the United States.

Within their own region, Australia and New Zealand make important security and economic contributions to the ASEAN nations and to the new countries of the Southwest Pacific which complement American efforts and contrbute substantially to stability in this region. Australia and New Zealand play particularly valuable roles in the Five Power Defense Arrangement (with Malaysia, Singapore and the UK). Moreover, Australian economic assistance to South Pacific nations this year is about $300 million as compared with $4.2 million for the United States, while New Zealand's economic assistance is $53 million despite its small size and economic difficulties. The level of economic assistance which our ANZUS allies are providing to the island countries of the Southwest Pacific is both generous and supportive of our shared interest in the stability of the region.

Although it is not directly related to ANZUS commitments, it is worth noting that Australia and New Zealand have contributed an air services unit to the Sinai Multinational Force and Observers (MFO). In doing this, both the Australian and New Zealand Governments overcame domestic political opposition in order to make a positive contribution to the peace process in the Middle East.

Résumé of the ANZUS Council Meeting

Deputy Secretary of State Stoessel met with Australian Foreign Minister Anthony Street and New Zealand Foreign Minister Warren Cooper in Canberra June 21–22, 1982 for the 31st ANZUS Council which all sides agree was an unqualified success. The mood of the Council meeting was appropriate to a meeting of close allies who view world and regional issues in essentially the same way. Foreign Minister Street set the tone of the meeting by pointing to the success of the ANZUS alliance over 30 years and noting its continued validity and general acceptance. The useful and full discussions covering a wide spectrum of issues and the resulting communique reflect both the high degree of congruence in the policies of the three ANZUS partners and the remarkable openness and vitality of ANZUS and the relationships between the three allies.

The validity of the alliance was underscored by the willingness and ability of the partners to grapple with the sensitive political issues of port access for nuclear-powered and nuclear-armed warships. The leaders of the opposition Australian Labor Party (ALP) have called into question continued port access for USN ships, thus triggering a heated public controversy on this issue on the eve of the Council. This was not a problem at the Council meetings and the final communique stated unequivocally that Australia and New Zealand "declared their continued willingness to accept visits to their ports by United States Naval vessels whether conventional or nuclear-powered." Immediately following the communique, William Hayden, leader of the ALP Parliamentary Opposition, made a dramatic reversal of his earlier opposition to visits by nuclear-armed warships. His statement also made clear that the ALP supports ANZUS. Subsequently, the ALP Party Conference endorsed Hayden's position.

The Council also addressed and reached agreement on broad international issues. Regarding the U.N. Special Session on Disarmament, members reaffirmed their commitment to the negotiation of effective balanced and verifiable measures of arms control including reductions of the nuclear armaments. They welcomed the agreement between the United States and the U.S.S.R. on the opening of negotiations on strategic arms reductions. The Council members also were in complete agreement on the need for continuing efforts to inhibit the spread of nuclear

weapons as well as for action by the international community toward the conclusion of a verifiable and effective ban on chemical weapons.

The South Pacific region received special attention, and the importance of a stable security environment to regional development was underscored. Similarly, the members reaffirmed their support for ASEAN and its efforts to strengthen peace and security in the region.

Addressing the world economy, Council members specifically agreed on the need to strengthen their efforts to stop the slide toward protectionism, including agricultural protectionism, to support measures to dismantle protectionist barriers and to strengthen and improve the multinational trading system. They added that economic relations with the U.S.S.R. and Eastern Europe should be consistent with political and security interests. Finally, they underlined the importance of assisting the developing countries to overcome their difficulties and to participate fully in the Western economic system.

Despite a difference of opinion on LOS (Australia and New Zealand want the United States to sign), the ANZUS Council meeting can be called an unqualified success.

During his visit to Canberra, Deputy Secretary Stoessel also met separately with Australian Prime Minister J. Malcolm Fraser and with ALP leader Hayden to discuss issues of mutual concern.

New Zealand visit

Following the ANZUS Council Deputy Secretary Stoessel visited New Zealand June 23–25 where he had an excellent and productive meeting with Prime Minister Robert Muldoon followed by a luncheon hosted by the Prime Minister and a series of useful meetings with Foreign Minister Cooper, Attorney General McClay, and other senior New Zealand Government officials. During these meetings, New Zealand officials noted the importance of completing the ratification process on the four Pacific Island treaties currently pending before the Senate and expressed interest in discussions on a possible antitrust cooperation agreement. In addition, Deputy Secretary Stoessel also had a cordial meeting and valuable exchange of views with Wallace "Bill" Rowling, leader of the opposition Labor Party in New Zealand.

* * * * * * *

Finally, I would mention that I engaged in extensive consultations elsewhere in Southeast Asia immediately following the ASEAN and ANZUS meetings, visiting Jakarta, Bangkok and Rangoon, for calls on ranking host government officials. In Jakarta I was received by Foreign Minister Mochtar for an extremely useful discussion on a range of bilateral and regional issues, and also met with other cabinet officials of the Indonesian Government. In Thailand I called on the King, and then met with Prime Minister Prem and senior Thai military officials. I visited Chiang Mai for briefings on the Golden Triangle area from which comes a significant portion of heroin entering the international drug market. I also visited refugee camps in eastern Thailand for a firsthand look at this tragic problem which remains important in our relations with ASEAN, especially Thailand. In my talks with the Thai, I reiterated Deputy Secretary Stoessel's assurances given at the ASEAN meetings that the United States would, in cooperation with continued reduction of the heavy refuge burden on Thailand. The two day visit the international effort, sustain a substantial resettlement program to permit a continued reduction of the heavy refugee burden on Thailand. The two day visit to Burma was my first as Assistant Secretary and provided the opportunity for excellent talks with the Burmese Foreign Minister U Chit Hlaing and other high ranking officials of the Burmese Government, with particular emphasis on narcotics control, our development assistance programs, and the quiet warming of United States-Burmese relations.

Senator HAYAKAWA. Thank you very much, Ambassador Holdridge.

Ambassador HOLDRIDGE. I think at this point, Mr. Chairman, we agreed that we should go into executive session.

[Whereupon, at 4:18 p.m., the subcommittee recessed, to reconvene immediately in executive session.]

[Whereupon, at 4:34 p.m., the subcommittee reconvened in open session.]

Ambassador HOLDRIDGE. If I may say one thing with respect to the questions on China posed to me by Senator Glenn, I can either handle those in writing or, if he would prefer, I am supposed to see the Senate Foreign Relations Committee a week from today, the 23d of this month, and I would be happy to address those orally at that time.

Now, he can choose however he would like me to respond to those questions.

Mr. CARL FORD [professional staff member]. I will check with him. It is my understanding that if he could not come back he would like to get as much of it in open session, and if there was some question then we would have to go to a closed session. If he was not here, then we would like it in writing, so that he would be able to have something to release, so that they would not have to be sanitized.

Ambassador HOLDRIDGE. There are some aspects of those questions that I would prefer to deal with in a closed session.

Mr. FORD. It would be up to you how to answer the questions.

Ambassador HOLDRIDGE. If you would be so kind, then, as to send me the questions in writing, I will then answer them as best as we can in writing for release to the public, and the more sensitive aspects I can deal with either with Senator Glenn directly or in the session scheduled a week from today.

Senator HAYAKAWA. I would like to say that we on the committee and the public at large are very grateful for your cooperation and assistance in the conduct of these hearings, Mr. Ambassador, and we thank you for this. We would appreciate your conveying our thanks to your staff as well. Their cooperation and yours has been a model of the consultative process between the two branches of our Government, which should pervade all of our activities. And we thank you very much for your contribution to this effort.

Ambassador HOLDRIDGE. Thank you, Mr. Chairman. May I say that I much appreciate your efforts with respect to the situation in Laos, the question of the removal of ordnance. I had the opportunity just the other day with the new Lao charge to bring this up as a positive gesture we have offered on our side, with no response from the Lao Government. So I hope this matter will still remain under consideration and we will get a favorable response in due course.

Senator HAYAKAWA. We are not asking quid pro quo on this, are we?

Ambassador HOLDRIDGE. Well, we are not linking the two issues of POW's and MIA's and positive gestures on our part directly. But I would point out that one way the Lao Government can make a positive response to the offers which we have made, yours and also the medicines which we have offered for the Mahasot Hospital, would be to be more forthcoming and more positive with respect to POW/MIA's.

Senator HAYAKAWA. That is putting it fairly clearly.

Ambassador HOLDRIDGE. I do not think that they would miss the point of what I had to say.

Senator HAYAKAWA. And they are quite badly in need of those medicines?

Ambassador HOLDRIDGE. Yes, they are, very much so.

Senator HAYAKAWA. Thank you very much.

This subcommittee is hereby adjourned.

[Additional questions and answers follow:]

STATE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR GLENN

Question 1. What specific criteria does the State Department employ in arriving at judgments on Taiwan's defense needs?

Answer. This involves an assessment of the threat to Taiwan, the state of Taiwan's defenses, and the capability these defenses provide for Taiwan to maintain a credible deterrent. In making this assessment, the Department of State relies not only on its own resources, but those of the Department of Defense and the CIA as well. In addition, it solicits the views of the Congress.

Question 2. Do you contemplate that in the future Taiwan will require a replacement aircraft for the F–5E's currently in its inventory?

Answer. As you know, on January 11 the Department issued a statement regarding replacement aircraft for Taiwan. The statement said that concerned agencies of the U.S. Government, including the Departments of State and Defense and other national security elements, concluded that no sale of advanced fighter aircraft to Taiwan was required because no military need for such aircraft existed. The Statement went on to say that Taiwan's defense needs could be met as they arose, and for the foreseeable future, by replacing aging aircraft in the Taiwan inventory with comparable aircraft and by extension of the F–5E coproduction line in Taiwan. There has been no new information in the intervening period to alter these conclusions.

Question 3. Do you anticipate implementing quantitative and qualitative restrictions, as a matter of U.S. policy, on arms sales to Taiwan? If so, what specifically do you have in mind?

Question 4. What sort of qualitative improvements i.e., modernization of Taiwan's forces, will be permitted under these restrictions? How will these judgments be made?

Answer. The above questions address areas dealing with our sensitive discussions with the Chinese. We have made clear that our policies will continue to be consistent with the Taiwan Relations Act, and the Administration will not seek revision of the TRA. I will be happy to go into fuller detail in a classified briefing.

Question 5. Since you seem to agree that the current discussions with the PRC will not settle our dispute with China over Taiwan arms sales, haven't we just postponed the day when Peking will again demand that we end all arms sales to Taiwan? What have we gained by such a postponement? How do we strengthen our bargaining position by making further concessions now?

Answer. Our current discussions with Beijing will not produce a complete resolution of all our differences over arms sales to Taiwan. This is not the type of issue that lends itself to completely definitive agreements. Instead, we have sought a means of achieving a practical modus vivendi by which we can reduce and contain the inherent tensions over this issue which now threaten our relations, thus enabling both sides to continue to broaden and strengthen our relationship. We seek an outcome now which will preserve our respective principles and which, if carefully and thoughtfully implemented on both sides will enable us to move forward with our bilateral relations while still maintaining the basis for our unofficial relations with the people of Taiwan.

Question 6. Has our position on the PRC's claims of sovereignty over Taiwan changed in any way since 1972? If so, why?

Answer. No, our position has not changed, notwithstanding slight differences in the language used to express that position since 1972.

Question 7. Why has the legal rationale for maintaining our unofficial relations with Taiwan provided me by Powell Moore been classified? (What portions of the letter have never been released to the public?)

Answer. This letter was provided to you following a classified hearing. We have reviewed the text and with one minor deletion concur with you that it can be declassified. I am enclosing a new, unclassified version of the letter for you.

DEPARTMENT OF STATE.
Washington, D.C., July 16, 1982.

HON. CHARLES H. PERCY,
Chairman, Committee on Foreign Relations,
U.S. Senate.

DEAR MR. CHAIRMAN: During John Holdridge's appearance before the Committee on April 14, Senator Glenn asked what the Department's legal rationale

was for maintaining relations with Taiwan, and inquired whether the Department has prepared a formal legal opinion on this subject. We have not prepared such an opinion. The legal basis of these relations has been clear from the time of our recognition of the People's Republic of China and can be summarized as follows.

Initially, distinction must be made between domestic and international law. Under domestic law, relations with the people on Taiwan are based in the first instance on President Carter's decision on December 5, 1978 to recognize the People's Republic of China as the sole legal government of China. A Joint Communique issued on that date by both China and the United States contained the following language:

"The United States of America recognizes the Government of the People's Republic of China as the sole legal government of China. Within this context, the people of the United States will maintain cultural, commercial and other unofficial relations with the people of Taiwan."

Under Article 2, Section 3 of the Constitution, the President is empowered to extend diplomatic recognition to foreign states and governments. This is an exclusive power and thus the President's action of December 15, 1978 did not require implementation by Congress insofar as it concerned the question of recognition of the PRC or the nature of our relations with the people of Taiwan.

We wished to ensure, however, that clear authority existed under domestic law for the continuation of cultural, commercial and other unofficial relations with the people of Taiwan. This was the purpose of the Taiwan Relations Act and, in particular, Section 4 of the Act which provides for the continued application to Taiwan of U.S. laws which refer or relate to foreign countries, nations, states, governments or similar entities, and the continuation of programs, transactions and the relations pursuant to such laws. Section 7 of the TRA designated the American Institute in Taiwan as the conduit through which unofficial relations would be conducted, and authorized the AIT, in the manner and to the extent directed by the President, to perform any act with respect to Taiwan which the President or any agency of the United States Government is authorized to perform. The President's recognition decision and the Taiwan Relations Act complement each other and together form a firm and effective basis under domestic law for the continuation of unofficial relations with the people of Taiwan.

Under international law, states may conduct relations with entities they may not recognize as sovereign states. The Joint Communique sets forth the conditions under which the People's Republic of China and the United States agreed to extend mutual recognition and to enter into diplomatic relations. The most important of these conditions is that the people of the United States would maintain unofficial relations with the people of Taiwan notwithstanding our recognition of the government of the People's Republic of China as the sole legal government of China. Unofficial relations have continued on this basis without major disagreement between the United States and China.

There have, of course, been disagreements on the issue of U.S. arms sales to Taiwan. This was an issue on which the United States and the People's Republic of China were unable to reach agreement at the time of normalization. The fact that disagreement on this subject continues does not reflect any change in the legal rationale underlying unofficial relations, but merely the continuation of a dispute which could not be resolved at the time of normalization.

Senator Glenn referred in his remarks to the testimony of Professor Victor Li before the Committee during consideration of the TRA. Professor Li set forth two legal hypotheses under which relations with Taiwan could continue; recognition of the PRC as a "successor government" exercising sovereignty over Taiwan, or recognition of the Taiwan authorities as exercising de facto sovereignty over the island. We understand that Senator Glenn stated on April 14 that the TRA adopts the latter approach, but that, in his view, the Administration had recently switched to the former in the area of arms sales to Taiwan. The Department believes this is incorrect.

The implication which appears to follow Senator Glenn's view is that it was, and is, necessary for the Congress and the Executive to choose one of the two theories identified by Professor Li. Although both of these theories are legally plausible, they do not constitute the only legal bases for the continuation of relations with Taiwan. The Taiwan question was unprecedented in many respects. The approach proposed by the Executive Branch and reflected in the TRA was a pragmatic one not based on either of these theories. It sought legislation which would provide a domestic legal foundation for the continuation of those commer-

cial, cultural and other relations which were referred to in the Joint Communique.

During consideration of the TRA, Administration witnesses repeatedly refused to adopt either of the theories identified by Professor Li. Mr. Hansell, then the Department's Legal Adviser, stated that the Administration took no position on the question of sovereignty over Taiwan.[1] In response to a written question by Senator Glenn, the Administration declined to extend de facto recognition to the authorities on Taiwan.[2] At the same time, the Administration did not deny that there were authorities maintaining order and exercising jurisdiction over the island of Taiwan.[3]

The TRA does not purport to extend de facto recognition to the Taiwan authorities. As you noted, "the exact legal status of Taiwan is not resolved in this bill."[4] Congress did amend the Administration's bill extensively. It did not, however, seek to change the legal theory underlying the Administration's approach, i.e., to create a practical framework for the continuation of relations which was, as you phrased it, "agnostic" on the issue of Taiwan's legal status.[5]

We believe experience has demonstrated that our approach is a workable one.

I hope that this response will prove helpful to Senator Glenn and to the Committee. I regret that our response to this question has been delayed.

With cordial regards,

Sincerely,

POWELL A. MOORE,
Assistant Secretary for Congressional Relations.

Question 8. If the Chinese accept our latest proposal, will we still be able to sell arms to Taiwan based solely on our judgment of Taiwan's needs?

Answer. We are committed to the implementation of the Taiwan Relations Act and our policies are completely consistent with the Act. Our relations with China, as you know, are predicated on our expectation, not our hope, but our expectation that the Taiwan issue will be resolved peacefully by the Chinese people themselves. It is in this context that we have been and will continue to judge Taiwan's defense needs.

Question 9. If, 10 years from now, Taiwan needed a brand new air defense fighter to replace the then obsolete F-5E's, we could do it under your proposal, is that right? We are not saying to the Chinese, are we, that we will never sell F-5G's or F-16/79's to Taiwan? I am assuming that necessary qualitative improvements will be allowed.

Answer. I cannot speculate on events that may or may not occur ten years hence. However, while our actions relating to specific arms sales to Taiwan will be in the context of our expectation that the Taiwan question be resolved peacefully by the Chinese people themselves, our standard now and in the future will continue to be our judgment of Taiwan's genuine defense needs.

Question 10. I also assume that if the Chinese agree to our proposal, we will have settled the arms sales issue once and for all—no more discussions, no more PRC demands—China will have agreed not to seek more concessions in the future.

Answer. I do not believe, and will not lead you to believe, that these latest discussions, if successful, will totally end our disagreement with the Chinese on this—or any other—issue once and for all. To ourselves, as well as the Chinese, our differences are over fundamental matters of principle, and interpretations may vary over time.

I fully expect, however, that our differences over this particular issue will have been reduced significantly and stabilized with the resolution of these latest discussions.

Question 11. Finally, we haven't granted the PRC its claim of sovereignty over Taiwan, have we? If the people on Taiwan freely choose to drop the ROC view of there being only one China and move to a more independent course, the United States would not have to oppose that, would we? We wouldn't have to go along to Taipei and say, "you guys can't do this, you belong to China."

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[1] Taiwan: Hearings Before the Committee on Foreign Relations, United States Senate, 96th Congress, 1st session, p. 95.
[2] Id., p. 727-728.
[3] Id., p. 89.
[4] Id., p. 104.
[5] Id.

In the words of the TRA, we would still ". . . consider any effort to determine the future of Taiwan by other than peaceful means, including boycotts of embargoes . . . of grave concern to the United States . . ." and will ". . . maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, of the social or economic system, of the people of Taiwan." Is that correct?

Answer. We have said publicly, and to both sides of the Taiwan Strait, that we acknowledge that there is only one China and that Taiwan is part of China. This is our position, and it has not changed since it was originally enunciated in the Shanghai Communique of February 1972 and the Joint Communique of January 1, 1979.

To speculate publicly on our response to hypothetical developments, particularly ones which would be as destabilizing in the area as those you have raised, would be imprudent. I will reiterate, however, our continued insistence that the determination of the future of Taiwan must be decided peacefully by the Chinese people themselves.

STATE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. The ASEAN communique alludes in several places to the rising tide of protectionism and the need to guard against this. How serious a threat do the ASEAN governments judge this to be and do you agree with their judgment?

Answer. This is a topic that was frequently raised in our discussions with the ASEAN leaders. Several of these countries are significant exporters of manufactured goods to the United States, Japan, and Europe and all are committed to industrial expansion and exports to create employment and improve their economic well being. They have noted increasing tendencies in all the advanced countries in a time of world recession to tighten restrictions on competition from exports from all sources. They are concerned that GSP benefits may be eroded by restrictive rules for product graduation. For our part we advise the ASEAN Governments in the context of the United States/ASEAN economic dialog on how they can use GSP more effectively, and how they can petition to expand the GSP product list.

During the Singapore post-Ministerial meeting we noted we shared ASEAN's concerns with the apparent rising protectionism in both developing and developed nations. We did stress that the United States has nothing to apologize for in that regard because we view our markets as among the most open in the world and we have a good record of opposing protectionism wherever it is found.

Question 2. The communique mentions the establishment of the "Common Fund." What is this fund and what is its purpose?

Answer. The Common Fund is an institution designed to assist in the financing of measures to reduce problems in international commodity markets. It was proposed in a resolution adopted by the fourth conference of the United Nations Conference on Trade and Development in 1976. Many developing countries are dependent on the export of one or two commodities for most of their foreign exchange earnings, so the potential price stabilization and market expansion features of the Fund are of great interest to the Third World. The First Account of the Common Fund will offer financing for the buffer stocking operations of qualified international commodity organizations. By pooling the resources of these organizations, the Fund is expected to offer financing at advantageous rates. The Second Account of the Fund will use voluntary contributions to finance research and market development activities in commodities. The United States has said that it will not contribute to the Second Account.

Negotiations on the Articles of Agreement establishing the Common Fund were completed in June 1980. The Fund was to have come into operation in March 1982, but only 32 of the 90 nations required for entry into force have ratified the Agreement. The United States signed the Agreement in November 1980, but has not ratified it. The Administration will consult with the Congress regarding ratification and budget authority for the $74 million U.S. contribution to the Fund at an appropriate time in the near future.

Question 3. The Foreign Ministers expressed their satisfaction with the progress of the ASEAN industrial projects, but their description of that progress was somewhat vague. Are these projects successful and worthwhile?

Answer. Two of the ASEAN Industrial Projects (AIP), the Urea Fertilizer Plants in Indonesia and Malaysia are already under construction, and completion

is expected in 1983 and 1985 respectively. The Rock Salt Soda Ash project in Thailand has recently been initiated by the ASEAN Foreign Ministers and construction is expected to get underway before long. Studies are underway on a more recent proposal for a Copper Fabrication plant in the Philippines. Singapore has dropped plans for its diesel engine plant as not being economically feasible. The two urea fertilizer plants, using a surplus raw material, natural gas are expected to assure greater self-sufficiency in fertilizer production for the region. One cannot speak of success of any of the plants as none are yet in operation. The fertilizer technology is, however, similar to that employed in several plants operating successfully in Indonesia and increasing amounts of fertilizer are needed to help meet the growing needs of Southeast Asia.

Question 4. The communique spoke of expanding and liberalizing intra-ASEAN trade and referred to 8,563 items which are covered by agreements. It is difficult to judge from this number whether or not this is significant. Do you judge that trade among the five is indeed being liberalized significantly?

Answer. Detailed data on the results of the ASEAN tariff preferential system have not been published but the volume of trade under this system is not thought to yet be large. As is to be expected a number of the items accepted for the early lists were not ones in which there was a great deal of intra-ASEAN trade and competition. However with the ever increasing number of products covered and increased margin of preference the volume of preferential trade should grow.

Question 5. The ministers commented that cooperation with Dialogue countries—presumably including the United States—on market access has not been up to expectations. Do they have specific complaints about the United States and, if so, what are we doing about them?

Answer. It is our view that the ASEAN concerns on market access are more aimed at some of the restrictive policies of the EC and Japan than at U.S. trade policy. However most of the ASEAN countries face U.S. volume limitations under the MFA on the exports of textiles and garments, a manufacturing field into which they have moved in a major way with the ability to manufacture high-quality products. There are also concerns about the quota levels for tuna fish and FDA standards which restrict the import of Malaysian pineapple. These latter are questions that we are dealing with respectively with legislation in the case of tuna and proposed FDA hearings in the case of pineapple.

Question 6. From the Committee's study of our relations with ASEAN, it appears that the commodity issue (sugar, rubber, tin, palm oil) is a serious one. Deputy Secretary Stoessel's prepared remarks only alluded to this in passing. Did you discuss this subject with the ministers and. if so, what were their views?

Answer. The subject of commodities, especially tin, was raised by the ASEANS in various bilateral discussions and their comments reflected great concern that the United States was becoming less sympathetic and less cooperative on these issues. In the case of tin there was of course reference to GSA tin disposal policy. During the 5 on 1 meeting references were made to what the ASEAN countries perceive to be our less than forthcoming stance on commodity prices and the Common Fund. The Deputy Secretary assured them of our continuing serious attention to these concerns.

Question 7. The formation of a coalition government for Cambodia must have received great attention, though the formal signature of the document by the three parties did not occur until after the ministerial meeting. Do the ASEAN governments view this as a major step forward? Does our government?

Answer. ASEAN and we welcomed formation of the Khmer resistance coalition. ASEAN regards this an important step in their strategy. The coalition strengthens ASEAN's arguments for holding Kampuchea's United Nations seat for Democratic Kampuchea while denying legitimacy to it or to the Heng Samrin regime installed by the Vietnamese. The coalition also increases pressure for political settlement along the line of the ICK Declaration, which calls for political pressure on Vietnam to negotiate withdrawal of Vietnamese forces from Kampuchea and restoration of an independent and neutral Kampuchea.

Question 8. What sort of a scenario do you envision unfolding as a result of the formation of the coalition? What benefits will accrue to the parties involved, to the ASEAN countries, to us?

Answer. It is too early to predict how the formation of the coalition may alter events but it is worth noting that subsequent Vietnamese maneuvers—including the announcement of a partial troop withdrawal from Kampuchea—suggest the Vietnamese are now feeling additional pressure. This is of clear benefit to ASEAN's strategy for a political settlement which produces total Vietnamese

withdrawal and an independent and neutral Kampuchea. Formation of the coalition places non-Communist Khmer in positions of conspicuous leadership of all Khmer opposed to Vietnamese occupation and the Vietnamese-installed Heng Samrin regime, and could strengthen the role they might play in a negotiated political settlement.

Question 9. Is it realistic to expect that the coalition will be able to make decisions of any import when its operations are based on the principles of ". . . tripartism, equality and non-preponderance" or consensus and one of the three partners has overwhelming military forces (in comparison to the other two)?

Answer. It cannot now be predicted how effectively the coalition will function.

Question 10. The press has reported that Prince Sihanouk intends to come to the United States soon to request aid for the coalition. What type of assistance are we prepared to give? What kind of help will the ASEAN governments provide?

Answer. As I stated in my prepared remarks on July 15, the United States will continue to provide political and moral support for the non-Communist Khmer resistance, and consult closely with ASEAN on how we could be of further help. In any event the United States will provide no military assistance. We emphatically rule out aid to or contact with the Khmer Rouge. It is our understanding that ASEAN as an organization will not provide material support to the coalition but that individual ASEAN member states are free to do so. Various ASEAN states are now consulting amongst themselves on how they could be of further help.

Question 11. If China continues its military assistance to the Pol Pot faction, will the other factions receive similar assistance and, if so, from whom?

Answer. Both Prince Sihanouk and Son Sann have repeatedly appealed for military assistance for their factions. I do not know whether the factions will receive military aid, but as I stated in my prepared statement, the USG will provide no military assistance.

Question 12. The Belgian Foreign Minister, representing the EEC countries at the ASEAN meeting, was quoted in the press as having "a certain guarded sympathy for Hanoi" and as suggesting that the EEC countries might abstain on the U.N. vote on seating Cambodia next Fall. Is this a real concern and does this threaten the ASEAN position?

Answer. Foreign Minister Tindemans told the press following announcement of the signing of the coalition agreement that in light of the formation of the coalition, the same EC countries which have in the past voted to maintain DK credentials would continue to do so. He could not speak for the three who abstained (France, Netherlands, and Ireland). We anticipate strong and widespread support at the UNGA for the ASEAN position.

Question 13. The ASEAN communique expressed concern that humanitarian assistance to Cambodia had been diverted to other purposes. What lies behind this concern? Does it involve U.S. assistance through U.N. agencies? What can be done to assure that the Vietnamese backed regime does not benefit?

Answer. The United States has contributed heavily to the international programs of emergency relief for the victims of the famine and turmoil in Kampuchea. Major donors to these programs, including the United States, as well as the international organizations which administer them, have been concerned about reports of diversion of portions of the emergency relief to purposes or recipients for which it was not intended. As these international programs have evolved, arrangements have been made to monitor better the distribution of the relief, and I believe considerable progress has been made. We and the other donors continue to watch for reports of diversion and to ensure that measures are taken to eliminate it.

Question 14. The communique noted that the Ad Hoc Committee of the International Conference on Cambodia had commenced its work. What has the committee accomplished or what does it hope to accomplish?

Answer. With ASEAN's encouragement, the Ad Hoc Committee has recently begun to search for ways to play a more active role in fostering a comprehensive political settlement in Kampuchea. An Ad Hoc Committee mission is visiting European and Southeast Asian countries this summer to explore avenues to achieve such a settlement. In a separate initiative, Austrian Foreign Minister Pahr, Chairman of the International Conference on Kampuchea, earlier this month visited Hanoi where among other things he stressed that it was in the interest of Vietnam to participate in the International Conference framework, remove its troops from Kampuchea, and accept a solution which would leave Kampuchea neutral and nonaligned.

Question 15. The communique emphasized the importance to the refugee program of a continuing commitment of third countries to resettlement of Vietnamese and Cambodians. How cooperative have the other resettlement countries been recently?

Answer. Since 1975, over 609,000 Indochinese refugees have been resettled in the United States and over 601,000 have been resettled elsewhere. In recent months, third country resettlement directly from countries of first asylum has exceeded our own. In May 1982 we accepted 982 refugees directly from first asylum and other countries accepted 2,456. In June the figures were 1,106 and 2,257 respectively. However, when we include refugees resettled from the refugee processing centers (in the Philippines and Indonesia), third country resettlement figures total roughly one-third of United States resettlement figures.

Question 16. The communique also alluded, somewhat mysteriously, to the avoidance of residual problems in the area—presumably refugee problems. What problems are the ministers referring to?

Answer. The ASEAN ministers are referring to the problems of being left with refugees who are not offered resettlement by the United States or any other country and who would thus constitute a residual population. First asylum is offered to refugees contingent upon their eventual departure. The ASEANS do not offer resettlement in place.

Question 17. Deputy Secretary Stoessel mentioned (in his prepared remarks at the ASEAN meeting) our concern about the use of lethal chemical agents in Indochina. Was this discussed by the ASEAN ministers and, if so, what was their view? Have they any suggestions as to what can be done about it?

Answer. The issue was raised with concern in a general way, but there was no detailed discussion of the subject.

Question 18. Ambassador Stoessel also mentioned the Bush trip to China and our discussion with the Chinese over arms sales to Taiwan. What advice did the ASEAN ministers have for you on this subject? Do they believe we should continue to sell arms to Taiwan?

Answer. The ASEAN ministers have not offered specific advice on the question of U.S. arms sales to Taiwan. The principle concern voiced by the ASEAN ministers was that a downgrade of United States-China relations over the Taiwan arms sales issue would harm the prospects for resolution of the Kampuchean issue or otherwise cause destabilization in the region.

Question 19. The ASEAN communique mentions the presence as observers of representatives of Brunei and Papua-New Guina. Are there any plans for bringing these two governments (or other governments) into ASEAN?

Answer. We understand from our talks with officials of the ASEAN governments that Brunei is expected to join ASEAN sometime after Brunei achieves independence in January 1984. Until then, Brunei will retain its observer status. We have no reports regarding possible inclusion of Papua-New Guinea in ASEAN. Because Papua-New Guinea regards itself more as a South Pacific than a Southeast Asian nation, it is more likely in our view to wish to maintain its current observer status.

Question 20. In your appearance before the committee last month, Ambassador Holdridge, you mentioned you were going to Burma. What did you find to be the state of our relations with the Burmese? Is their opening to the West continuing?

Answer. Our relations with Burma are good; during my Rangoon stop June 28–30, I was well received by the Foreign Minister, the Minister for Home and Religious Affairs (who has purview over the narcotics control program), the Minister for Agriculture and Forests, and by other SRUB officials. We discussed the U.S. economic assistance program and our narcotics control program, which currently are running at $12.5 million and $6 million respectively. This was my first visit to Burma in my current position of Assistant Secretary, and it was clear that the Burmese wanted to mark the occasion as indicative of the quiet warming trend in our bilateral relationship. With regard to their "opening" to the West in general (and Japan), I think this is proceeding at a modest pace. Western business overtures are more welcome now than previously, but change is occurring slowly and we should not expect dramatic developments in the near future.

Question 21. The issue of U.S. access to Australian and New Zealand ports has been raised in both countries. Would the United States be unable to fulfill its responsibilities without access (to Australian and New Zealand ports)?

Answer. Access by United States Naval ships to the ports of its treaty partners is a critical factor in its efforts to maintain strategic deterrence and to carry out its responsibilities under the ANZUS treaty.

Question 22. Would the nature or character of ANZUS change if the United States were denied access (to Australian and New Zealand ports)?

Answer. If U.S. Navy ships were denied access, the United States would have difficulty in carrying out its treaty obligations. This in turn would clearly affect the effectiveness of the alliance.

Question 23. What is the opposition party's position on port access? Do you believe the U.S. would be denied access if the Labor Party came to power?

Answer. The Labor Party, at its July 5–9, 1982, national conference in Canberra, went on public record in support of access by U.S. Naval vessels, whether conventional or nuclear-powered. The Labor Party also accepts that U.S. Navy policy is not to reveal whether or not its vessels are armed with nuclear weapons. The Labor Party supports Australian membership in ANZUS and wishes to avoid action that might weaken the alliance. The Labor Party, however, opposes the homeporting of foreign vessels in Australia, the storage of nuclear weapons on Australian territory, or the launching of operations involving nuclear weapons from Australian territory.

Question 24. Have you seen any public opinion surveys of Australian and New Zealand sentiments on the port access question?

Answer. We are not aware of any Australian polls on this subject. A recent national survey in New Zealand revealed that the public supported nuclear-powered warships visits by a margin of 50 percent in favor to 38 percent opposed.

Question 25. What is the general public's view on the (port access) issue, from your own assessment? Is there a difference between Australia and New Zealand public attitude?

Answer. There are vocal anti-nuclear groups in both Australia and New Zealand, as there are in the United States and other Western democracies. However, there is no question that the vast majority of people in both Australia and New Zealand fully appreciate the significance of ANZUS to their own national security. The majority therefore supports ship visits as an essential aspect of the alliance. Visits of U.S. Navy ships to Australian and New Zealand ports have been uniformly very well received by the great majority of the public. We are not able to distinguish any significant differences between the public attitudes in the two countries.

Question 26. What issues were raised by the Australian and New Zealand delegations during the Council meeting? Was the Administration's position on the Law of the Seas Treaty discussed? What is the Australian and New Zealand view of the situation in the Middle East, particularly in Lebanon?

Answer. The ANZUS Council meeting covered a great number of subjects, among them being ship visits, defense cooperation, the U.N. Special Session on Disarmament, strategic weapons, non-proliferation, chemical weapons, the recent NATO summit, ASEAN, Cambodia, Thailand, the Khmer people, development of the South Pacific region, the Law of the Sea, China, Korea, Japan's role in the Pacific, the Falklands, Afghanistan, the Middle East, the world economy, energy, East-West trade and assistance to developing countries. LOS was discussed, and Australia and New Zealand urged that the United States should most carefully consider the various aspects of the question before deciding its attitude toward signature of the Convention. Regarding the Middle East, the ANZUS partners expressed full support for the Lebanese Government and for the sovereignty and territorial integrity of Lebanon. They also expressed support for Security Council resolutions 508 and 509 calling for an immediate cessation of military activities and demanding that Israel withdraw all its military forces forthwith and unconditionally.

Question 27. Are we exploring the possibility of homeporting ships at the Cockburn Sound Naval Australian Base in Western Australia? How would this be useful to the United States?

Answer. The Australian Government has offered to discuss homeporting a U.S. aircraft carrier at Cockburn Sound near Perth in Western Australia. A U.S. Navy technical team was sent to Australia last year to evaluate Cockburn Sound as a base for U.S. ships. (There is already a small Australian Naval base there.) This study was carried out in the context of world-wide needs for U.S. Naval deployments and included other possible locations as well as Australia. A judgment has still not been rendered whether (a) homeporting a second carrier abroad would substantially assist in meeting the U.S. Navy's requirements and obligations, and (b) if so, whether Cockburn Sound is the optimum choice. Whatever the decision, U.S. Navy ships visit western Australia regularly and no place is more popular with our sailors than Perth.

[Whereupon, at 4:38 p.m., the subcommittee adjourned, subject to call of the Chair.]

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